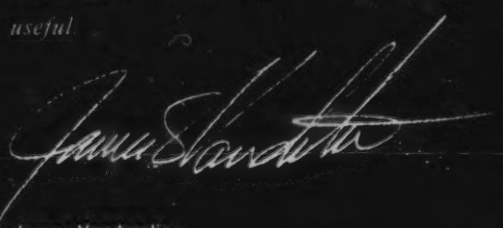
Commercial real estate in the nation's business capital experienced a number of significant developments in 1989. Some were very positive, such as RJR Nabisco's relocation from Atlanta to the former J.C. Penney building. Leasing activity, boosted by a diversity of industry groups, was strong in Midtown and Downtown. Although Downtown was impacted by the slowdown in the securities industry, international banks made strong head quarters commitments.

As we enter a new decade, many questions confront the real estate industry. What will the impact of foreign investment be on the market? How long will the retrenchment on Wall Street continue and how will it impact other industries? Has the development of the West Side produced too much office space?

Cushman & Wakefield's **Focus on Manhattantrends** *examines these and other questions with definitive research on the Midtown and Downtown markets. It looks at how these markets performed in 1989 and how they are expected to fare in 1990.*

In the new decade, Cushman & Wakefield will continue to use a team approach to working with clients. Our commercial, retail and industrial brokerage, financial services, appraisal, management services and development consultants groups are dedicated to meeting our clients' needs.

We're pleased to present Cushman & Wakefield's 1990 **Manhattantrends** *and hope you will find the information useful.*



James Vanderslice
Senior Vice President
Midtown and Downtown Branch Manager

Introduction

1990 Highlights

Leasing Activity: 20 to 22 msf

Midtown Vacancy Rate: 15.5 to 16.8 percent

Downtown Vacancy Rate: 14.8 to 15.4 percent

Midtown Asking Rentals: $40 to $42 psf
Downtown Asking Rentals: $33 to $35 psf

New Midtown construction: 5.8 msf in 1990; 1.6 msf in 1991. No new Downtown construction scheduled until 1992

Entering the 1990s, New York City leaves behind a decade of unparalleled growth and turbulence in certain industries. During the mid 1980s, the Manhattan real estate market was strengthened by demand from a diversity of firms, particularly those in the financial services industry, which led to a surge of new development. With financial services firms loosing steam, Manhattan has entered a decade of slower economic growth.

Corporate Retrenchment

Corporate layoffs and consolidations caused a moderate job loss that contributed to a statewide rise in the unemployment rate to 5.5 percent by year end, up from 4.9 percent in 1988. For the 5-year period from 1990-94, white collar job growth is projected to be a minimal 0.3 percent. The result will be decreased demand for office space as new supply is added to the market.

The most significant staff reductions of 1989 occurred in the financial services industry, resulting in a net loss of over 10,500 jobs through November 1989, according to the New York State Department of Labor. Shearson Lehman Hutton, Drexel Burnham Lambert, and Merrill Lynch were just a few of the large security firms reducing staff.

Consolidations resulted in the availability of large blocks of space. McGraw-Hill, Shearson Lehman Hutton, First Boston, and The Bank of New York were responsible for the majority of sublease space that became available during 1989. Corporate relocations from New York by Mobil, Exxon, and The Pershing Division of Donaldson Lufkin Jenrette also added to availabilities. Although large corporate relocations seemed to be popular, the number of firms leaving the City has actually decreased since 1987. If landlords continue to offer competitive deals in 1990, tenants may find it cost effective to remain in Manhattan.

Numerous corporate consolidations and relocations coupled with the completion of more than 7.3 msf of new construction, caused both the primary and secondary vacancy rates to escalate. In Midtown, the primary vacancy rate rose to 14.7 from 13 percent; the secondary vacancy rate increased to 15.1 from 14.7 percent. Downtown, the primary vacancy rate increased to 14.8 from 11.9 percent and the secondary vacancy rate rose to 22.3 from 19.3 percent.

In 1990, continued slackening demand and the completion of an additional 5.8 msf of space in Midtown are likely to drive vacancy rates higher. In contrast, there is no new construction scheduled Downtown until 1992. This temporary hiatus in development will provide the Downtown market with an opportunity to reduce the surplus office space. While quality prime space is expected to be absorbed in both the Midtown and Downtown markets, secondary office buildings, particularly those which have not been renovated or upgraded, may remain available.

Despite increasing vacancy levels, asking rental rates continued to rise, partially due to new construction coming on the market at higher asking prices than the existing supply. Also, some firms occupying space in prestigious buildings added their space to the market at above-average asking rates. When generous concession packages including free rent and work letters of $25 or more are factored in, effective rental rates are approximately 15 to 25 percent below asking rental rates. Based on the considerable amount of space available, it is likely that market conditions will continue to favor tenants.

Legal Services Expanding

Although many industries experienced cutbacks, legal services firms experienced positive growth and exhibited strong demand for office space

with major commitments by Dewey, Ballantine, Bushby, Palmer & Wood and Davis, Polk & Wardwell in Midtown; and Cleary, Gottlieb, Steen & Hamilton, and Hughes, Hubbard & Reed in Downtown. International banks also continued to expand with commitments by Fuji Bank Ltd. & Fuji Bank & Trust Company, Mitsubishi Bank Ltd., Sanwa Bank Ltd., Dresdner Bank AG, and Barclays Bank PLC. In all, leasing totaled 22.9 msf in Manhattan, just 2.3 percent below 1988's level.

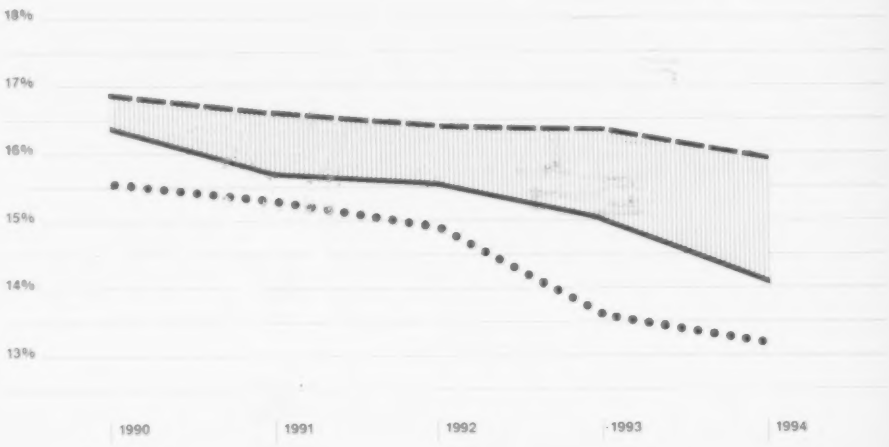
Off-shore investors, while not as active as in past years, participated in some significant transactions: Mitsubishi Estate Company's 51 percent stock purchase of Rockefeller Group Inc. and the sale of the PaineWebber Building at 1285 Avenue of the Americas to Nippon Life Insurance Company.

The new City government will be challenged with serious issues concerning the labor force, transportation, education and affordable housing, as well as a growing budget deficit. The new City charter will play a major role in determining the volume and location of future development as the approval process for new projects will be subject to greater scrutiny and increased intricacy. New York City continues to capture the imagination of people around the world, a quality that cannot be quantified. The dynamism of Manhattan is sure to continue well into the future which will bode well for the real estate industry, despite its cyclical nature.

Primary Vacancy Rate Forecast—Midtown

During 1990 the primary vacancy rate should climb higher, ranging between 15.5 and 16.8 percent as fewer new office jobs weaken demand for office space. Additionally, more than 5.8 msf of new office space is slated for completion. The majority of the new supply will be completed during the first half of the year on the West Side, where development has been influenced by a City zoning bonus and tax deferral program for new construction.

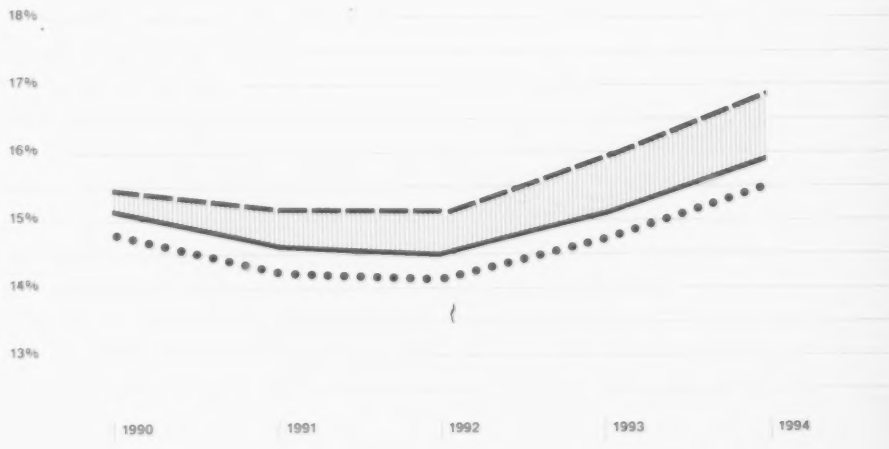
Construction between 1991 and 1994 should average 1.4 msf per year, which will allow absorption of space to catch up with the new supply. Overall, by 1994 the vacancy rate is expected to range between 13.2 and 15.8 percent.



Primary Vacancy Rate Forecast—Downtown

Although no new construction is scheduled until 1992, the primary vacancy rate should rise this year as a result of the continued retrenchment on Wall Street. As more firms place large blocks of space on the market during the year, the vacancy rate should range between 14.8 and 15.4 percent.

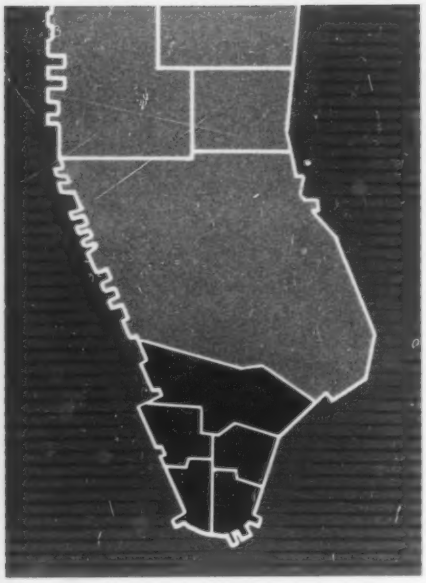
Vacancy levels should decline during 1991 and 1992 with only 475,000 sf of new office space scheduled to be delivered. Starting in 1993, however, the vacancy rate is projected to start its upward trek once again if new construction currently proposed is completed.



Growth Rate: Low High Moderate Most Likely Range

Midtown Overview

Bounded by Canal Street to 65th Street, Hudson River–East River



Despite predictions of a slowdown in commercial real estate, Midtown Manhattan performed surprisingly well in 1989, with leasing activity outpacing 1988's level.

While many firms continued to announce work force consolidations and cost-saving measures, leasing surged in other industries and infused the commercial real estate community with optimism. The legal, publishing and financial services sectors accounted for a substantial amount of the 18.3 msf leased in Midtown.

During 1989, 3.9 msf was completed in nine buildings in Midtown. Tax incentives and zoning bonuses on the West Side spurred the accelerated pace of new construction. Development in Midtown West proved to be extremely successful during the year as high-quality space at more reasonable rates than East Side locations enticed many firms to this district.

But as a result of the abundance of available space, the vacancy rate in primary buildings rose to 14.7 percent from 13 percent in 1988—its highest level in more than five years. Consolidations of firms such as First Boston and McGraw-Hill, and the relocations of Mobil and Exxon out of New York added to the existing supply. The secondary vacancy rate remained relatively stable, however, with a moderate increase to 15.1 percent from 14.7 percent in 1988.

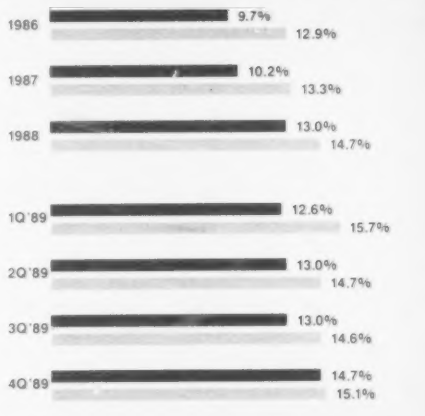
Asking rentals in primary buildings increased to $40.28 psf at year end, from $39.45 in 1988, due to higher-priced space in newly constructed buildings and space vacated as a result of consolidations and relocations.

Two forces ultimately could conspire to push 1990 vacancy levels upward: the completion of 10 new buildings without substantial tenant commitments which will add 5.8 msf to the primary inventory, and continued corporate consolidations. Tenants will reap the rewards as landlords offer generous concessions in the face of stiff competition. As construction completions begin to drop off in 1992, positive absorption should reverse the current cycle.

Total Leasing Activity*

1989 Quarterly Figures

Primary ■ Secondary Vacancy Rates



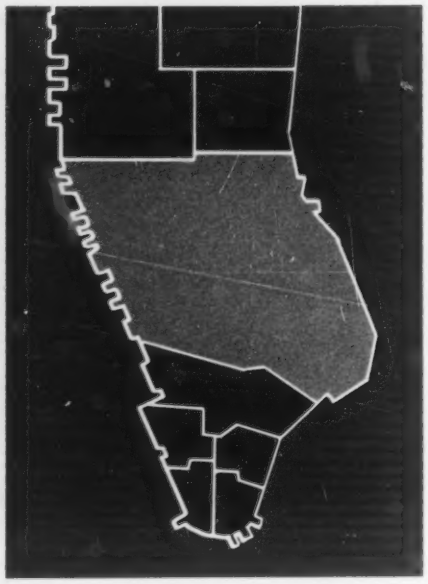
Primary ■ Secondary Average Asking Rentals

Primary Inventory—163,008,600 s.f.
Secondary Inventory—69,480,700 s.f.

* Represents leasing activity in primary, secondary and buildings under construction

Midtown South

Bounded by Canal St. to 96th St. with and East 32nd Sts., Hudson River, East River



A market enlivened by strong activity in leasing and renovations, Midtown South turned in an impressive performance in 1989. Thirty-two percent of the major leases signed in 1989 were in buildings renovated within the last four years. In addition, Midtown South attracted the interest of foreign investors: 225 Fifth Avenue was purchased by the Japanese-owned Chrysanthemum Holding Corporation, and the Swedish investor Lars-Erik Magnusson acquired 375 Hudson Street.

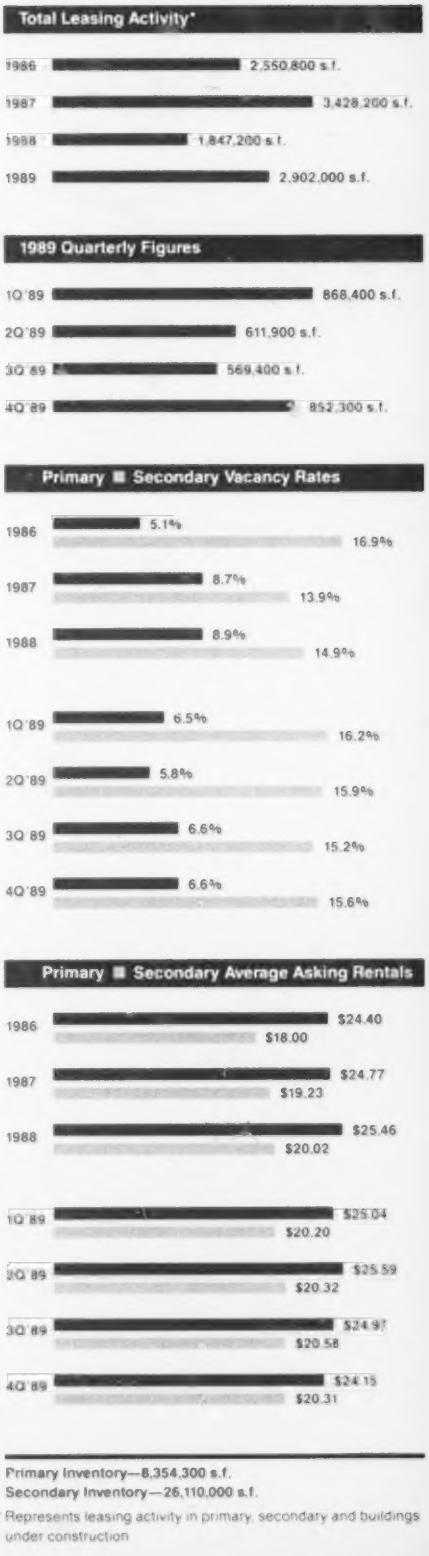
Leasing activity was up 60 percent in Midtown South compared to 1988 as companies took advantage of rents below those available in other Midtown or Downtown districts. Park Avenue South was the most active area and accounted for one third of the district's deals over 10,000 square feet. One of the largest transactions, however, occurred elsewhere in the district: Penguin Books USA leased 146,400 sf at 375 Hudson Street.

The sole new building scheduled for this district is 101 Avenue of the Americas, a 23-story, 387,000 sf office building just north of Canal Street. Scheduled for completion in 1991, the building is being developed by Minksoff Equities and will be fully occupied by The Service Employees Local Union.

With few developable sites left and construction costs escalating, renovations are gaining momentum. In addition, the landmark designation of "Ladies' Mile" between 14th and 23rd Streets along the Avenue of the Americas, coupled with zoning restrictions, make it difficult to demolish and replace older structures. A case in point is the former Siegal Cooper Store at 620 Avenue of the Americas which will be completely gutted and restored as an office building by Tishman Speyer Properties.

Strong demand for primary office space, especially renovated space, contributed to a substantial 2.3 percentage point drop in the primary vacancy rate to 6.6 percent from year-end 1988 to 1989, its lowest since the first quarter of 1987. In contrast, the vacancy rate for secondary space increased to 15.6 percent from 1988's 14.9 percent.

The high demand for newly built and renovated office space is a reflection of the success of Midtown South. With the majority of inventory in secondary buildings, renovations will play a major role in the continuing growth of this district. The future success of Midtown South may depend on rents remaining at a moderate level compared to other Manhattan locations.

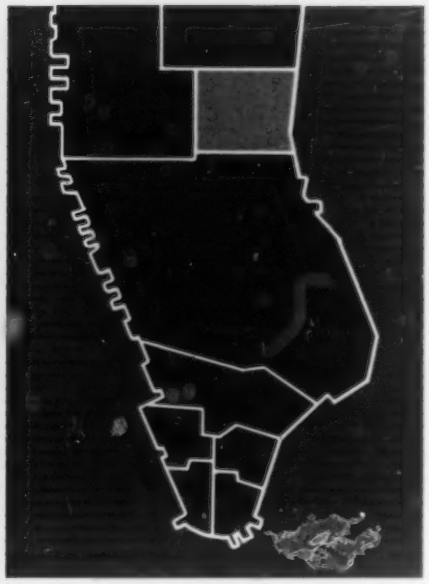


Primary Inventory—8,354,300 s.f.
Secondary Inventory—26,110,000 s.f.

* Represents leasing activity in primary, secondary and buildings under construction

Grand Central

Bounded by 33rd–47th Sts. East of Fifth Avenue/ East River



Transportation accessibility coupled with a prestigious East Side address continued to attract tenants to the Grand Central district where leasing activity reached 4 msf, matching 1988's performance.

The relocation of Downtown firms to major development projects in the Grand Central district continued in 1989. In Manhattan's largest transaction, the Downtown law firm of Davis Polk & Wardwell committed to 450,000 sf at 450 Lexington Avenue, a 900,000 sf building scheduled for completion in 1992.

Despite strong demand for new construction, a lack of developable sites resulted in no new buildings in 1989 and none scheduled for 1990. Smaller office buildings, however, generated tenant enthusiasm in the district. 461 Fifth Avenue, a 174,000 sf building completed in 1988, was 84.1 percent leased by firms such as The Wyatt Company, a management and public relations company; Skopbank, a Finnish banking concern; and The Lantis Group, a retail trade company.

Two small buildings, 565 Fifth Avenue and 225 East 43rd Street, are scheduled to begin construction in 1990 for completion by 1991.

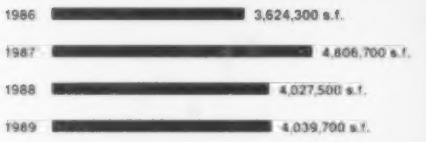
Because of an abundance of pre-war buildings, renovations have played an integral part in the area's resurgence. Following extensive rehabilitation, 380 Madison Avenue and 333 East 38th Street are attracting prime tenants.

The primary vacancy rate rose dramatically to 14.4 from 11.1 percent in 1988 due to 1.3 msf at 150 East 42nd Street vacated by Mobil when it relocated to Virginia. Primary asking rental rates jumped to $37.86 from $35.40 psf in 1988 as the Mobil space was priced at higher-than-average asking rentals.

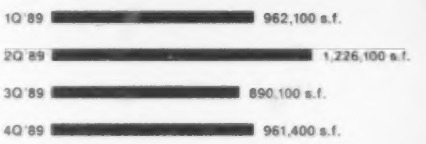
Although the vacancy rate increased in the Grand Central district, the outlook remains optimistic for 1990. With no new construction planned until 1991 and a significant lack of large blocks of contiguous space in the immediate area, the current supply should be absorbed at a steady pace.

Competition from Midtown West will intensify in 1990, forcing Grand Central landlords to aggressively continue renovations. At the same time, the efforts of the private Grand Central Partnership to upgrade the area's public appearance and improve security should positively impact the future of the district.

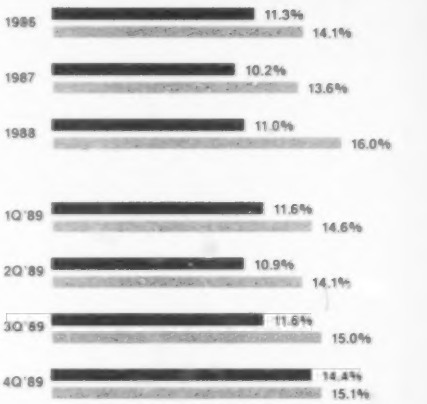
Total Leasing Activity*



1989 Quarterly Figures



Primary ■ Secondary Vacancy Rates



Primary ■ Secondary Average Asking Rentals

Primary Inventory—41,188,400 s.f.
Secondary Inventory—10,070,200 s.f.

* Represents leasing activity in primary, secondary and buildings under construction

Plaza

Bounded by 57th–67th Sts., East of Seventh Avenue, East River

The Plaza district continued to attract prominent international and domestic firms as well as investors during 1989. Although strong leasing and development plans confirm confidence in the area, emigrations and corporate consolidations contributed to higher vacancy rates.

Robust leasing of 6.1 msf was equal to 1988's level. The largest transaction of the year was the law firm Dewey, Ballantine, Bushby, Palmer & Wood's commitment for 287,500 sf at 1301 Avenue of the Americas, the former J.C. Penney headquarters. A tremendous success, this recently renovated structure secured the 122,000 sf tenancy of the manufacturing firm Siemens Corporation and an 86,400 sf lease by RJR Nabisco which relocated its headquarters from Atlanta. In addition, ITT Corporation committed to 172,000 sf at 1330 Avenue of the Americas, the former ABC headquarters.

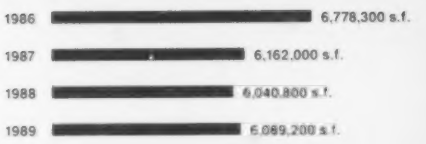
The strong banking industry activity from international institutions included Sanwa Bank Ltd.'s lease for 72,000 sf at Park Avenue Plaza and National Bank of Canada's commitment for 46,000 sf at the newly completed 125 West 55th Street. Foreign investors were responsible for the largest office building sale of the year in Manhattan: Nippon Life Insurance Company purchased controlling interest in the 1.5 msf PaineWebber building at 1285 Avenue of the Americas for over $500 million.

The two new buildings completed in the Plaza district in 1989 added 1.2 msf of primary space: Macklowe Real Estate Company's 125 West 55th Street and Minskoff Equities' 1325 Avenue of the Americas. Additionally, six buildings scheduled for completion during the next two years will expand the primary inventory by 1.6 msf. The average size of these buildings, many located mid-block, is substantially smaller than those which are scheduled for completion in Midtown West.

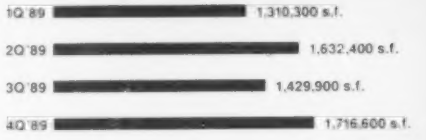
Continuous corporate consolidations and relocations plagued the Plaza district in 1989 and added substantially to available space. McGraw-Hill's consolidation and Exxon's relocation from 1251 Avenue of the Americas to Texas helped push the primary vacancy rate to 15.1 percent at year end from 13.8 percent in 1988.

With rates averaging $45.46 psf, the Plaza district continues to command the highest primary asking rentals in Manhattan. As competition intensifies during 1990, increasing vacancy rates could lead to lower rentals and greater concessions.

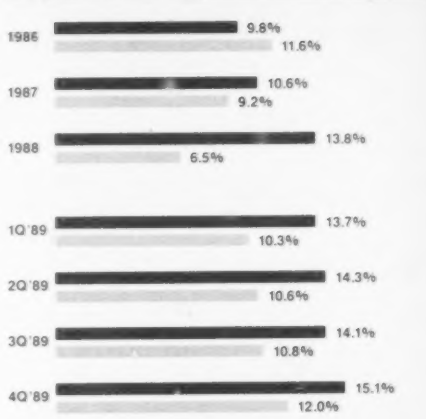
Total Leasing Activity*



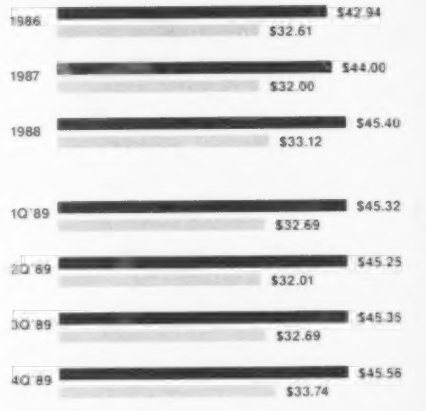
1989 Quarterly Figures



Primary ■ Secondary Vacancy Rates



Primary ■ Secondary Average Asking Rentals

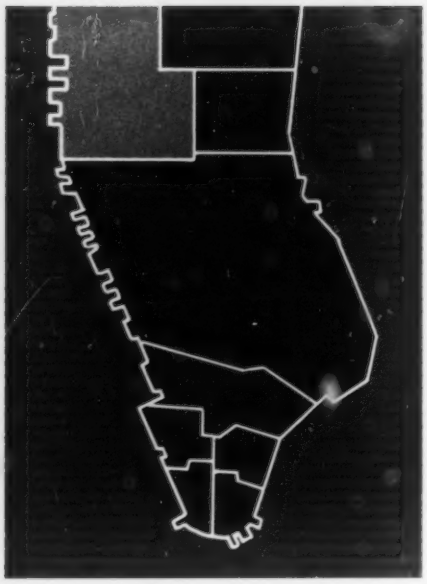


Primary Inventory—79,418,200 s.f.
Secondary Inventory—5,145,200 s.f.

* Represents leasing activity in primary, secondary and buildings under construction

Midtown West

Bounded by 30th–47th Sts., West of Fifth Ave.; 47th–65th Sts., West of Seventh Ave.



With seven office towers totalling 2.7 msf completed in Midtown West, new development surged during 1989. With an additional seven office towers still under construction and a vast amount of office projects proposed, Midtown West is proving itself as a quality office location.

In new buildings, mid-sized deals accounted for most of the leasing while larger transactions dominated 1988. Firms opting for space in new office buildings included Time Warner, The Rowland Co., Haworth Industries and Leperq de Neuflize at 1675 Broadway; Smith Newcourt Carl Marks at 114 West 47th Street; Kellwood Company, El Al Israel Airlines and Dominion Textile U.S.A. at Tower 45 at 125 West 45th Street.

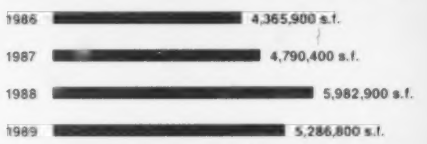
Despite these and other transactions, leasing activity fell to 5.3 msf in 1989, down from 6 msf in 1988. The district's two largest transactions of the year were Viacom International's lease for over 400,000 sf at One Astor Plaza and Diamandis Communications' lease at 1633 Broadway for 250,000 sf.

Many buildings were completed without significant tenant commitments, causing the primary vacancy rate to increase to 16 percent from 14.8 in 1988. With an additional 4.4 msf scheduled for completion in 1990, the vacancy rate is expected to continue its escalation.

Primary asking rentals increased to over $34.50 psf by mid-year as a result of new office space with higher asking rentals than existing stock. Aggressive leasing of this higher-priced space, however, caused year-end asking rentals to drop to $32.95 psf, just slightly higher than 1988's level.

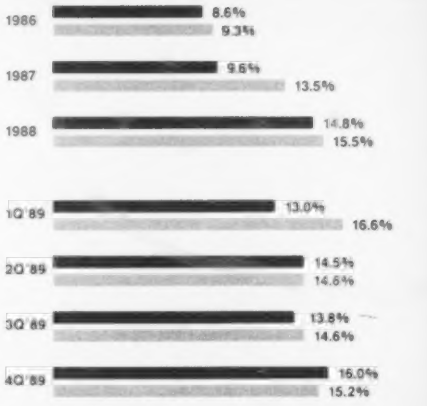
Midtown West will continue to evolve into a major office location as developers and tenants look even farther west for buildable office sites, an increasingly scarce commodity in other Midtown districts. With over 30 msf of office space proposed for the West Side during the next decade, and an impressive roster of tenants already settled there, Midtown West is taking its place as a formidable competitor in the marketplace.

Total Leasing Activity*



1989 Quarterly Figures

Primary ■ Secondary Vacancy Rates



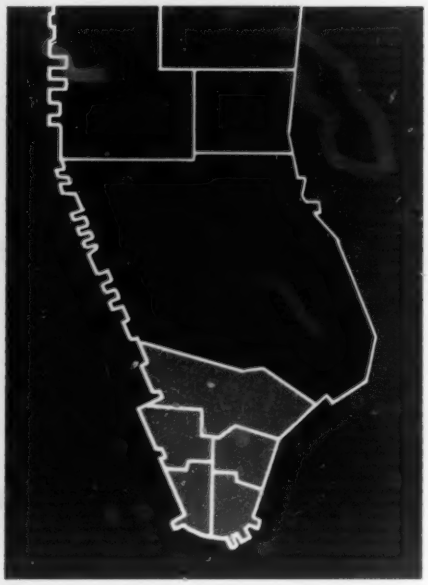
Primary ■ Secondary Average Asking Rentals

Primary Inventory—34,047,700 s.f.
Secondary Inventory—28,155,300 s.f.

* Represents leasing activity in primary, secondary and buildings under construction

Downtown Overview

Bounded by Battery Park to Canal Street, Hudson River to East River



The wave of consolidations, relocations and mergers that swept through the financial services industry left large blocks of office space available in both primary and secondary buildings.

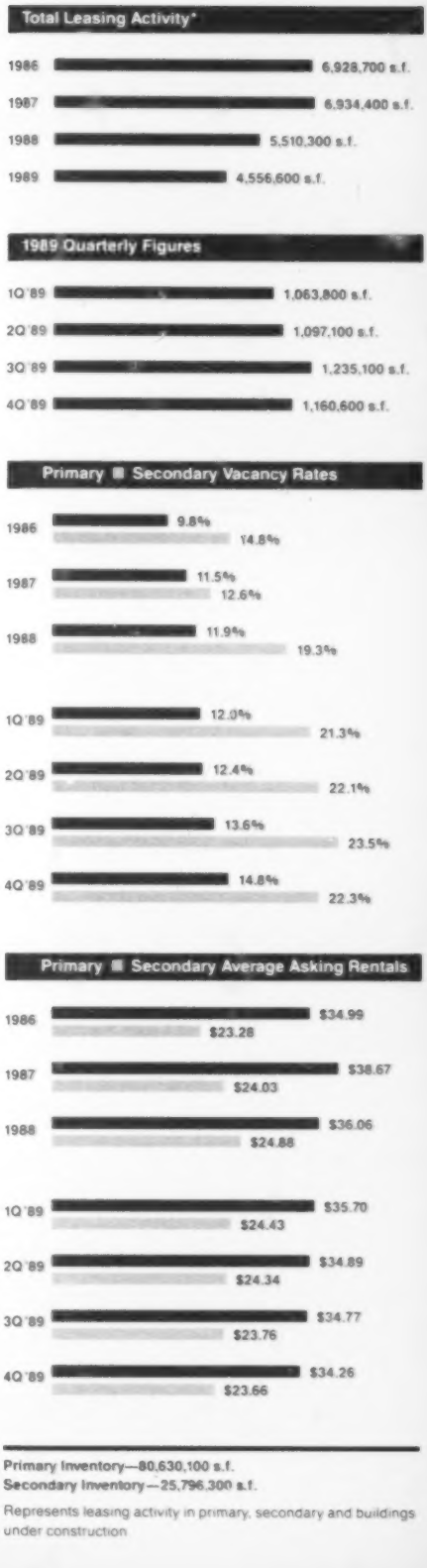
Overall leasing activity dropped almost 1 msf to 4.6 msf as retrenchment on Wall Street stalled demand from the securities industry. While the securities industry historically has been Downtown's primary user, banks and legal services firms dominated leasing activity in 1989. Several international banks reaffirmed their commitment to maintain their headquarters locations Downtown by renewing leases, expanding or relocating within this market.

Domestic firms also demonstrated confidence in this market with Morgan Guaranty Trust Co.'s new 50-story headquarters building at 60 Wall Street, as well as Shearson Lehman Hutton's new operations center at 388 Greenwich Street.

Corporate consolidations and relocations contributed to the substantial rise in the primary vacancy rate to 14.8 percent at year end, up from 11.9 percent in 1988. The compound effect of decreased leasing activity and large blocks of space placed on the market by major firms caused the secondary vacancy rate to increase to 22.3 percent from 19.3 percent.

With the addition of lower-priced sublease space, average asking rentals for both primary and secondary office space continued to decrease. Primary asking rentals dropped to $34.26 psf at year end from $36.06, while secondary asking rentals decreased to $23.66 from $24.88 psf.

Although no new construction is scheduled for completion in 1990, continued corporate cutbacks and the failure of Drexel Burnham Lambert are expected to increase the supply of available space. Vacancy rates should rise. With more space available, especially in older, unrenovated buildings, the secondary market will suffer more severely than the primary market. In 1990, the Downtown office market will offer diverse opportunities for new firms entering the market and for existing firms expanding or relocating their operations.

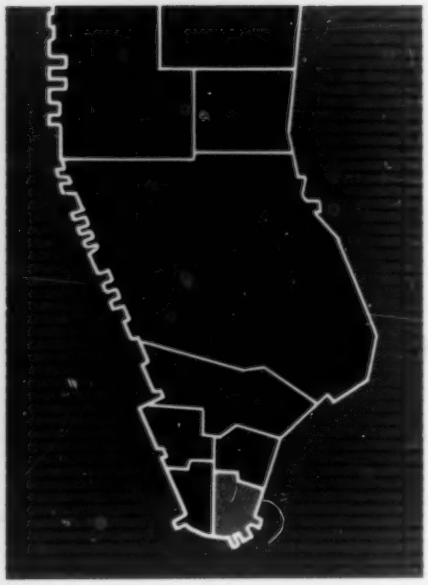


Primary Inventory—80,630,100 s.f.
Secondary Inventory—25,796,300 s.f.

* Represents leasing activity in primary, secondary and buildings under construction

Financial East

Bounded by Battery Park, Broadway, Liberty St., William St., Pine St., and the East River



Financial East was the most active district Downtown in 1989 with the highest leasing levels, the most building sales, and the largest addition to supply. The lack of leasing activity among financial services firms, which have long ensured this district's success, was the primary factor behind the jump in vacancy rates during the year.

The 1.6 msf leased by year end exceeded the 1988 leasing total of 1.2 msf but was still short of the 1984-87 average of 2.5 msf.

Strong commitments by law firms helped mitigate the sting of Wall Street cutbacks. Taking advantage of an exceptional opportunity, Hughes, Hubbard & Reed and Seward & Kissel subleased 165,000 and 75,000 sf, respectively, of Shearson Lehman Hutton's space at One Battery Park Plaza. Other significant transactions included commitments by Dresdner Bank AG and the communications firm Knight-Ridder for more than 100,000 sf each at 75 Wall Street.

Due to the relocation of U.S. Trust to new headquarters in Midtown and the merger of Thompson McKinnon and Prudential Bache, large blocks of space became available at 45 Wall Street and Financial Square, respectively. Prudential Bache will occupy 99,000 sf at Financial Square.

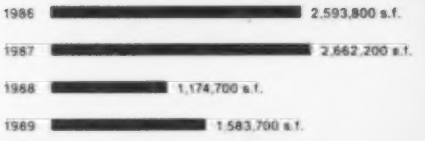
The primary vacancy rate reached an all-time high of 18.7 percent at year end, up from 13.2 at the end of 1988. Primary asking rentals closed at $33.36 psf, the lowest level since 1985.

The secondary vacancy rate retreated from its steady climb closing at 26.7 percent, down from 30.2 percent the previous year. Moderate space additions and consistent leasing activity throughout the year accounted for this decrease. Secondary asking rentals closed at $24.61 psf during 1989, down slightly from 1988's level.

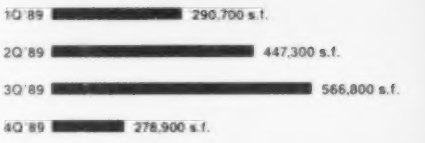
Among the highlights of 1989 were the completion of Morgan Guaranty Trust Co.'s 1.6 msf world headquarters building at 60 Wall Street and three major building sales: One New York Plaza to Chase Manhattan Bank for $140 million; Integrated Resources' purchase of Two Wall Street for $53.7 million; and Jack Resnick and Sons' auction bid of $77 million for 40 Wall Street.

The absence of new construction until 1992 should allow for the absorption of the excess supply of available space. If security firm consolidations continue at the same pace, however, the district will face higher vacancy rates.

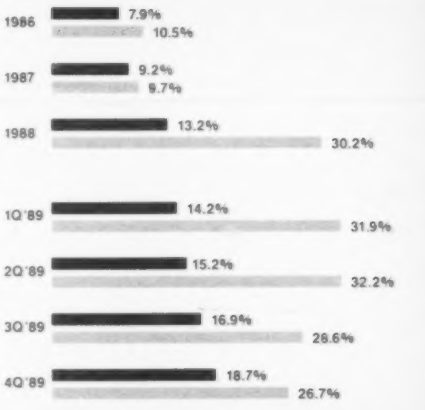
Total Leasing Activity*



1989 Quarterly Figures



Primary ■ Secondary Vacancy Rates



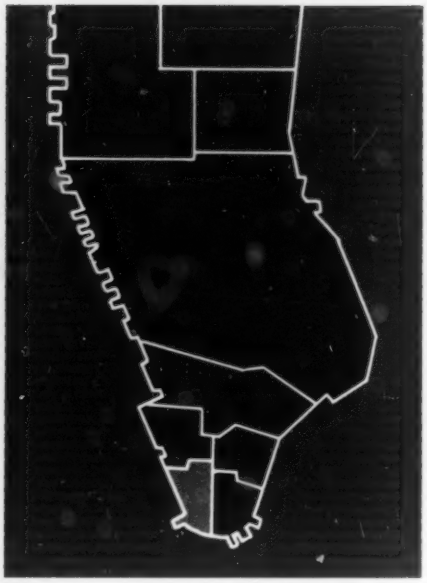
Primary ■ Secondary Average Asking Rentals

Primary Inventory—33,606,500 s.f.
Secondary Inventory—6,937,800 s.f.

* Represents leasing activity in primary, secondary and buildings under construction

Financial West

Bounded by Battery Park, Hudson River, Albany St., Greenwich St., Liberty St., and Broadway



Smaller commitments in secondary buildings by a diversity of industries dominated the year's performance in Financial West, the smallest district Downtown.

A small but noticeable improvement in leasing occurred in 1989. At year end, leasing activity rose to 567,000 sf surpassing 1988's total of 494,000 sf. The secondary market accounted for 85 percent of leasing in Financial West, boosted by Printronic Corporation of America Inc.'s commitment to 25,000 sf at 17 Battery Place.

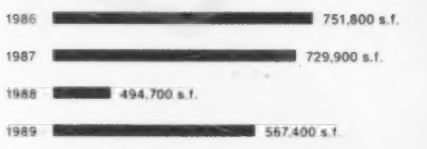
While the bulk of secondary leasing was in smaller-sized deals, more than 90 percent of the 1.4 msf added to the market was in large blocks of secondary space. The Bank of New York placed more than 600,000 sf of operations space on the market, the largest amount by a single Downtown tenant during 1989. This drove the secondary vacancy rate to a record 34.4 percent.

The primary market fared better with no major blocks of new space added to the supply. The largest lease was signed by JT Moran for 45,000 sf at 45 Broadway Atrium. The primary vacancy rate rose to 20.1 percent from 1988's rate of 18.9 percent.

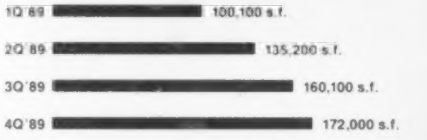
Asking rentals were indicative of an aggressive and competitive market with both primary and secondary asking rates falling throughout the year. Primary asking rentals closed the year at $29.74 psf, while secondary asking rentals closed at $23.62 psf, the lowest level since year-end 1984.

Financial West will ultimately strengthen with no new developments planned, allowing demand to catch up to supply. In addition, with its aging secondary stock, buildings in this district are prime candidates for renovation.

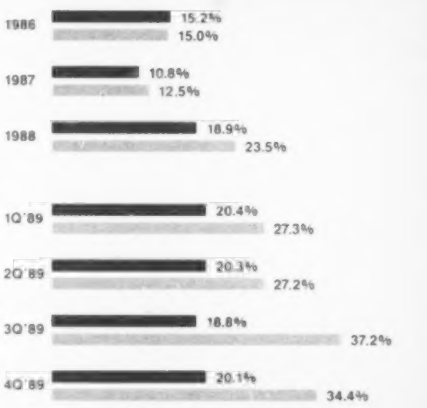
Total Leasing Activity*



1989 Quarterly Figures



Primary ■ Secondary Vacancy Rates



Primary ■ Secondary Average Asking Rentals

Primary Inventory—1,606,200 s.f.
Secondary Inventory—6,198,900 s.f.

* Represents leasing activity in primary, secondary and buildings under construction

World Trade

Bounded by Albany St., Hudson River, Chambers St., Church St., Vesey St., Broadway, Liberty St., and Greenwich St.

Five of Downtown's 10 largest deals in 1989 were signed in the World Trade district. The consolidation of financial services firms, however, caused vacancy rates to escalate.

Leasing totalled 1.4 msf, substantially below 1988's activity when Salomon Brothers' lease for 1.1 msf at Seven World Trade Center catapulted total leasing to 2.6 msf. The largest deal Downtown in 1989, however, was signed by the law firm Cleary, Gottlieb, Steen & Hamilton for 252,000 sf at One Liberty Plaza. International banks also committed to large blocks of space. Mitsubishi Bank Ltd. leased 158,000 sf at Two World Financial Center and Fuji Bank Ltd. and Fuji Bank & Trust Company committed to 183,000 sf at Two World Trade Center.

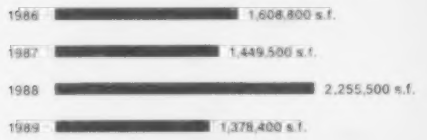
The primary vacancy rate fluctuated throughout the year dropping to a low of 12 percent in April before ascending to 14 percent by year end. The addition of 221,000 sf of Shearson Lehman Hutton's sublease space at Two World Trade Center and 180,000 sf at 75 Park Place was responsible for this increase. Availabilities in the secondary market, including 69,000 sf of sublease space vacated by Interactive Data Services at 22 Cortlandt Street, resulted in a 7.3 percentage point jump to 26.4 percent in the secondary vacancy rate at year end.

Although maintaining the highest asking rates of the Downtown districts, primary asking rentals closed at $37.55 psf, the lowest level since 1984. Asking rentals in secondary buildings, which have been on the rise since 1984, increased to $27.10 psf; higher-than-average asking rentals for the Interactive Data sublease space contributed to the higher rates.

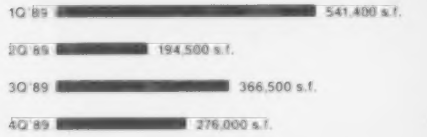
Development was put on hold when Drexel Burnham Lambert cancelled plans to build its headquarters on a municipal site on West Street. In contrast, development activity in neighboring New Jersey received a boost with Merrill Lynch's decision to relocate 2,500 back-office employees from One Liberty Plaza to Jersey City. Although Merrill Lynch is not expected to put this space on the market in 1990, its decision scales back the demand of one of Downtown's largest tenants.

Overall, 1990 could prove to be a year of strong leasing in the World Trade District with major deals currently pending at One Liberty Plaza and Two World Financial Center. The district, however, faces the challenge posed by a large inventory of available space and a subsequent rise in the vacancy rate.

Total Leasing Activity*



1989 Quarterly Figures



Primary ■ Secondary Vacancy Rates

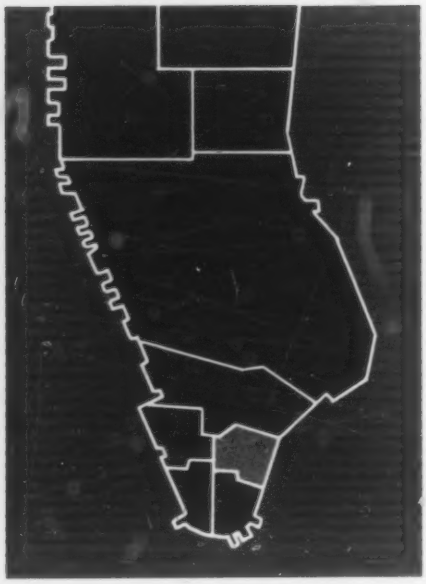
Primary ■ Secondary Average Asking Rentals

Primary Inventory—26,172,200 s.f.
Secondary Inventory—1,789,400 s.f.

* Represents leasing activity in primary, secondary and buildings under construction

Insurance

Bounded by Pine St., William St., Liberty St., Broadway, Park Row, and the Brooklyn Bridge



The 862,000 sf leased in the Insurance district was only 5 percent below 1988's level. The completion of one new building coupled with steady space additions, however, sent vacancy rates soaring in both primary and secondary office buildings.

Major deals in the insurance industry were signed at 110 William Street by Scor Reinsurance for 32,000 sf and Tri-City Insurance Brokers for 13,600 sf. Barclays Bank PLC committed to 205,000 sf at 222 Broadway, the largest transaction in the district. The City also reconfirmed its commitment to the area with the Department of Housing's lease of 67,000 sf at 150 William Street.

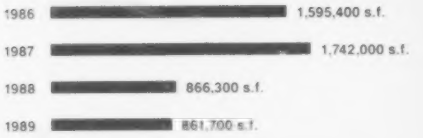
The addition of 40 Fulton Street, a 224,000 sf new office building with no tenant commitments and 225,000 sf of Lloyds Bank's sublease space at 199 Water Street, contributed to a sharp increase in the primary vacancy rate from 7.4 in 1988 to 12.1 percent at year end. The secondary vacancy rate also increased substantially to 16 percent during 1989 from 13.3 percent as a result of the steady addition of smaller units.

Higher than average asking rentals at 40 Fulton and 199 Water Street caused primary asking rentals to rise to $31.21 at year-end 1989 from $29.90 psf at the close of 1988. The secondary asking rental rate declined slightly to $21.28 from $21.64 psf.

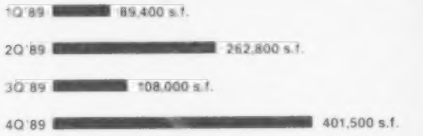
Development in the Insurance district has reached a hiatus. Developers of 250 Water Street, the only proposed site in the district, have halted plans for a 500,000 sf office tower since the Landmarks Preservation Commission rejected four proposed plans for the site.

The Insurance district needs growing commitments from its traditional tenant base as well as an influx of new industries to relieve pressure on the primary vacancy rate. With a healthy supply of prime office space available, this district is in an excellent position to satisfy tenants' needs.

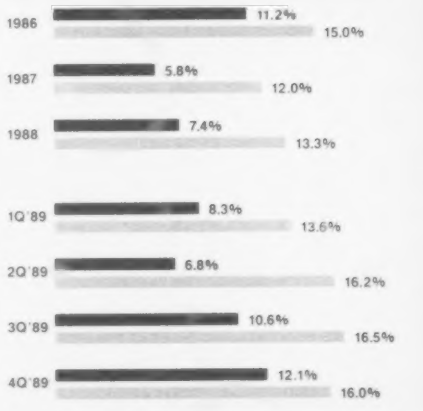
Total Leasing Activity*



1989 Quarterly Figures



Primary ■ Secondary Vacancy Rates



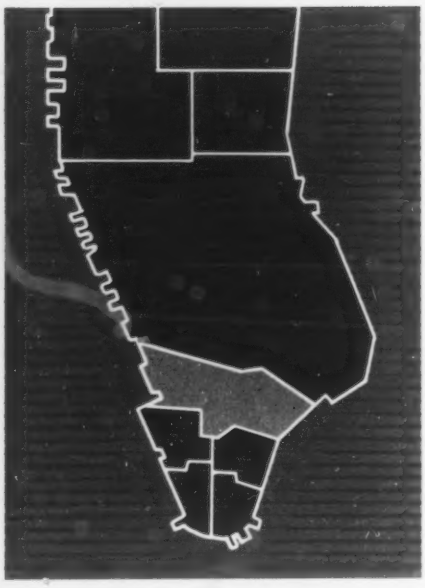
Primary ■ Secondary Average Asking Rentals

Primary Inventory—13,331,000 s.f.
Secondary Inventory—4,421,700 s.f.

* Represents leasing activity in primary, secondary and buildings under construction

City Hall

Bounded by the Brooklyn Bridge, Park Row, Vesey St., Church St., Chambers St., Hudson River, Canal St., and East River



The City Hall district accounted for a considerable amount of development activity Downtown in 1989. Although leasing by the government in this district was severely depressed this year, the City purchased one building and continued with development plans for another.

The City exercised its option to purchase 253 Broadway, a 224,000 sf building which it initially occupied in 1988. The federal government's decision to condemn the city-owned sites and bypass the Uniform Land Use Review Procedure will expedite construction of the proposed 800,000 sf federal and municipal office building at 290 Broadway and a proposed new federal court house at Foley Square.

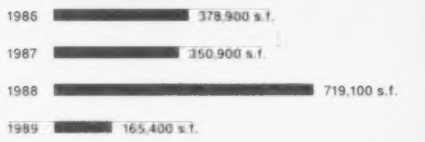
Another major development was Shearson Lehman Hutton's completion of a 1.6 msf operations facility at 388 Greenwich Street. Nearby, plans were announced for a mixed-use development at 377-381 Greenwich Street including a 115-room hotel, a movie theater and retail space.

Leasing in the primary market was dormant due to the lack of available space, while the secondary market was unable to compensate for the lull. As a result, total leasing dropped off dramatically during 1989 as government agencies, which typically drive demand in the area, sought space elsewhere. The 170,000 sf of secondary office space leased in the district during 1989 was 76 percent below 1988's level. The Methodist Community Services Organization's lease for 10,400 sf at 27 Park Place was the only lease that exceeded 10,000 sf during 1989.

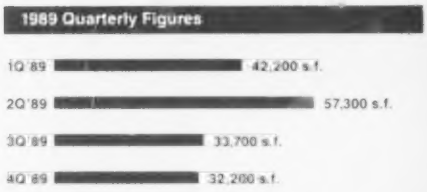
Western Union International placed 125,000 sf on the market at 60 Hudson Street, which helped push the secondary vacancy rate to 9.1 percent from 8.2 percent at year-end 1988. Secondary average asking rentals fell to $20.92 psf, its lowest level since 1985.

The outlook for 1990 in the City Hall district hinges on the reshaping of the City government under the new administration. With the lowest asking rentals Downtown and the greatest number of potential sites for development, the district offers opportunity for growth.

Total Leasing Activity*



1989 Quarterly Figures



Primary ■ Secondary Vacancy Rates

Primary ■ Secondary Average Asking Rentals

Primary Inventory—5,914,200 s.f.
Secondary Inventory—6,448,500 s.f.

* Represents leasing activity in primary, secondary and buildings under construction

Investment Market

1989 was a year of divergent trends in the Manhattan real estate investment market, showing that Manhattan is clearly a heterogeneous marketplace. A general slowdown in the number of investment transactions was coupled with a plateau in price levels. At the same time, certain market sectors, most notably in the hotel market, generated heated activity matched by inflating prices.

New Agendas

Looking ahead, political and economic uncertainties are creating a mood of caution in investment markets. New City and borough administrations suggest new agendas untested by the real estate industry. In addition, the prospect of commercial rent control as well as the recently revised land use approval process bodes greater regulation and more constraints on landlords and developers.

In the economic arena, the three forces that have historically empowered the real estate investment market—economic growth, inflation, and bank lending—are no longer fueling real estate values. According to the Port Authority's Regional Economic Analysis, local economic growth is expected to be slow in the short-term but to continue to prosper in the long-term. Inflation dropped to 5 percent in 1989 from 10.1 percent in 1981. Finally, even though lending institutions are flush with capital in a declining interest rate environment, lending criteria have become notably more conservative as the commercial banking industry has suffered severe financial setbacks from failing real estate loans across the country.

These factors, combined with the real estate tax environment in New York State, have changed the character of the real estate investment market. Real estate is no longer a get-rich-quick phenomenon in Manhattan, but a long-term, illiquid investment that features appreciation as the main attraction. Increasingly, real estate will compete with intangible, liquid assets that offer comparable or higher returns.

Hotel Investment

During a period of low transaction volume in the real estate investment market, the market for hotel investment properties was particularly brisk due to demand from both domestic and international hoteliers. A number of major hotel deals were consummated, many at record prices, including:

- The Regent Hotel assemblage at 46-50 East 58th Street at over $200/FAR foot (approximately $750,000/key)
- Sheraton Corporation's buyout of its joint venture partner's share in the St. Regis Hotel (approximately $700,000/key after renovation)
- Japan's Royal Hotel Group's acquisition of the Royal Concordia Hotel for $250 million ($490,000/key)
- FAI Insurance's acquisition of the St. Moritz Hotel for $175 million ($252,525/key)
- Mohamed Hadid's acquisition of the Ritz Carlton Hotel along with the Washington, D.C. Ritz Carlton (reported $320,000/key)
- Lawrence Chan's acquisition of the Grand Bay Hotel for $72 million ($400,000/key)

In addition, the Downtown market is attracting hoteliers who wish to replicate the success of the Vista International Hotel at the World Trade Center. Currently, Marriott is constructing a 507-room hotel scheduled for completion in 1991. And Peter Kalikow has announced plans for what is reported to be the tallest hotel in New York City: a 58-story, 584-room hotel on Fulton Street across from the World Trade Center. Delivery is scheduled for 1991. A number of foreign hoteliers have also shown interest in operating Downtown.

The hotel market is one of the most active in the city because it is widely viewed as one of the strongest hotel markets in the nation. However, a temporary downturn in occupancy rates in 1989 may be bad news for Manhattan hotels over the near term. The slowdown in the financial services sector has meant fewer business travelers resulting in a 5.7 percent decline in occupancy from 1988 levels. At the same time, hotel operators continue to add to supply with nine hotels comprising over 4,000 rooms presently under construction and 13 proposed hotels.

This combination of declining occupancy and the boom in hotel construction could have a negative impact on room rates and hotel property values.

Office Building Outlook

A number of factors impact the office building investment market. Spurred by tax abatements and zoning incentives, the recent construction boom on the West Side has resulted in an oversupply of office space. This, combined with the lack of developable sites and the increasingly anti-development sentiment among community groups and municipal agencies, has created an environment that is not conducive to growth and investment. The result is that a number of New York City developers are seeking opportunities in Europe and other U.S. markets which offer fewer development barriers and higher growth potential.

An interesting effect of the oversupply of office space in Midtown West has been the tightening of the classification of prime properties. Investors are seeking much stronger tenancies and locations than were previously accepted even though they are willing to expand the geographic boundaries to include properties west of Fifth Avenue. Until recently, investors were loosening

the definition of 'prime' properties to compensate for the lack of available investments. However, the subsequent softening of the leasing market has caused investors to reverse this trend.

Despite this, the definition and appeal of trophy properties has not changed. These properties continue to attract the most powerful foreign players. In fact, this past year the Japanese once again demonstrated their appetite for these properties: Nippon Life acquired 80 percent of the PaineWebber Building and Mitsubishi Estate acquired an interest in the Rockefeller Group and its holdings in Rockefeller Center. In addition, pension funds executed two significant convertible debt transactions, both in excess of $100 million, and are expected to remain active in the market.

Transaction volume may remain constrained in 1990 until sellers begin to have more realistic expectations. A clear trend during the past few years has been the decreased volume of transactions from the levels of the early '80s. In general, the few properties placed on the market this year were aggressively priced for two reasons: anticipation of foreign interest requiring lower yields and compensation for the combined tax hit of the 10 percent gains tax, the increased transfer tax and regular state and city taxes. Since the softening in the leasing market and the expected slowdown of the regional economy, however, domestic and international investors are seeking higher returns to compensate for greater risk. As a result, few of the available properties have sold, creating downward pressure on prices.

New Directions

In this conservative investment environment, a few areas are expected to gain increasing attention from the investment community. Downtown Manhattan is beginning to generate interest from entrepreneurial New York City investors seeking quality buildings at affordable prices. Although there is still an oversupply of space Downtown, it will be absorbed over time since the supply of space being delivered is abating. No new available space was delivered in 1988; only three properties were delivered in 1989 (two owner-occupied); and no new construction is planned for the near term. Institutional and foreign investors have not yet entered this market. Once the first wave of local entrepreneurial investors paves the way, however, and the current supply of office space is absorbed, these investors will once again turn their attention to opportunities in the Downtown market.

Another area of increasing investment interest is Midtown South. When Midtown South became the location of choice for Manhattan's public relations, advertising and other creative industries in the mid 1980s, its stigma as a loft/manufacturing location was removed. This trend, combined with the relative lack of available developable sites, promoted local entrepreneurial investors to acquire and renovate older, well-located buildings. Foreign entrepreneurial investors, however, are not likely to follow their local counterparts to this area in the near future.

A related trend in Midtown is the "reskinning" and renovation of older buildings. Due to the lack of developable sites and the competition from new office towers, a few developers have found reskinning a cost-effective way to bring an aging property up-to-date. A complete interior renovation including electrical and mechanical systems is necessary to service the technical requirements of today's sophisticated tenants. Howard Ronson recently completed an extensive reskinning and renovation of 380 Madison Avenue. In addition, 575 Lexington Avenue and 660 Madison Avenue are slated for similar work.

Investor Outlook

The pool of investors active in the Manhattan market continues to expand and shift. Domestic pension funds and Japanese institutional investors will continue to compete for Manhattan's trophy properties. Large New York City and national developers will maintain their foothold in Manhattan but are beginning to venture into expanding markets such as Western Europe. A new cast of foreign investors is expected to enter the Manhattan investment market with continuing vigor. Investors from Korea and Hong Kong are expected to become increasingly active. Koreans have expressed interest in acquiring smaller properties in districts heavily occupied by Korean businesses, especially those they can also occupy. Scandinavian investors are also expected to be more visible. In fact, Lars-Erik Magnusson recently underscored this trend with his highly publicized acquisition of 375 Hudson Street, part of a three-property portfolio valued at over $1 billion.

Retail Market

An uncertain economy and a wavering business climate have disrupted the retail market's steady growth and have posed new challenges. In 1989, retailers realized their dependence on general economic conditions and discontinued the trend of entrance into and expansion in the New York market. Until recently, Manhattan retail has been strong, leading many to believe that it was immune to the fluctuating economic woes that impaired other markets. These optimistic views, however, were clouded by the decline in the number of retailers setting up shop or leasing additional space in Manhattan as well as by the tumultuous condition of department store chains.

A Market in Transition

The predicament faced by several local department stores created an atmosphere of uncertainty. With Bloomingdale's, Saks Fifth Avenue, Bonwit Teller, and Alexander's currently for sale and the end of an era for B. Altman's, smaller retailers realized their dependence on the well-being and success of department stores. The larger department stores act as barometers of retail market conditions and also benefit the smaller retail stores by drawing traffic to their area.

On a positive note, Abraham & Straus established its presence in Manhattan with the opening of A&S Plaza at 1275 Broadway, one block south of Macy's. This widely acclaimed project once again tests the vertical mall concept in Manhattan. Other retailers leasing space in the center include The Gap, Strawberry, Children's Place, Kay Bee Toys, and Modell's. In October, nearby Herald Center, a less successful vertical mall project, was sold to a consortium of New York City developers who plan to renovate it and lease a major portion to Toys "R" Us. Together, these projects stand to revitalize the Herald Square area as a major retail hub for Manhattan.

Another area that continued to undergo a retailing renaissance in 1989 was the Flatiron District (Fifth Avenue from 14th to 23rd Streets). In the past few years, steady leasing by upscale retailers has made this district an alternative to the higher-priced areas of Fifth and Madison Avenues and 57th Street. In 1989, leases were signed with shoe stores Kenneth Cole at 95 Fifth Avenue and Joan & David at 104 Fifth Avenue, and with Japanese designer Matsuda at 156 Fifth Avenue. On the other hand, Williwear, one of the pioneers of the area that opened a store at 119 Fifth Avenue several years ago, put its space back on the market.

Leasing in other secondary retail areas slowed during 1989, casting doubt over the future growth of this segment of the market. In past years, retailers looked to areas such as Columbus Avenue and SoHo as more moderately priced alternatives to the prime retail avenues. These areas reaped the benefits of expansion and increased retail traffic. In 1989, however, there was a slight decline in overall leasing in these areas, a rise in vacancies, and a subsequent decline in rental rates. While this stagnation may reflect an unstable market, it also provides retailers with the opportunity to negotiate more favorable terms.

Prime Retail Holding Its Own

The prime retail area of Fifth and Madison Avenues and 57th Street remained active but the number of "blockbuster" deals was far below 1988 activity when many national and international retailers established presences in Manhattan. The two most notable deals of 1989 were Brentano's, a division of Waldenbooks, leasing the former Scribner's Bookstore and Ermenegildo Zegna, one of Italy's leading upscale clothing manufacturers, leasing space at 743 Fifth Avenue. In leasing 13,000 sf at 597 Fifth Avenue, Brentano's returned to Manhattan following a hiatus of several years and preserved the Scribner's landmark bookstore for its intended use. Other significant leases signed in this area include Cole-Haan at 620 Fifth Avenue, Liberty of London at 638 Fifth Avenue, and Alfred Dunhill in 450 Park Avenue at 57th Street. The long awaited grand openings of Fendi, Bulgari and Louis Feraud confirmed this area as a quintessential retailing location.

The effect of strong leasing in these areas in recent years has been a general lack of "blue chip" space on these streets. In good economic times, this led many retailers to explore other areas. In 1989, however, retailers trimmed expansion plans and remained in their current locales. But several domestic retailers who already occupy space in the market broke this trend and expanded in 1989. The Gap, The Limited and Strawberry continued their aggressive expansion in New York City. Two other domestic retailers also established locations in Manhattan on Fifth Avenue. Pier One Imports, a general goods chain, leased space at 461 Fifth Avenue and Merry-Go-Round, a clothing chain, leased space at the Empire State Building.

The Downtown market, like Wall Street itself, suffered as a result of the economic conditions in 1989 but several notable moves did occur. Century 21, a discount department store, is moving from its present quarters at 175 Broadway to the 101,000 sf former Woolworth's junior department store. Bolton's, a ladies' clothing retailer, signed a lease at 90 Broad Street.

The year found the Manhattan retail market in transition, strongly influenced by general economic conditions. Retailing patterns changed and many retailers put plans for new space on hold. With vacancies increasing and rental rates decreasing, aggressive, well-managed retailers may find attractive opportunities in the near future. The lessons Manhattan retailers learned in 1989 will be critical to their success in the 1990s.

Glossary

Inventory
Includes buildings which have received a Certificate of Occupancy (C of O) as of December 31, 1989.

Vacancy Rate
Space, available both directly and through a sublease, divided by the inventory. Space in buildings under construction is not included.

Recently Completed Buildings
Buildings which have received their C of O in the stated year. In this report, it is buildings completed in 1989.

Under Construction
Buildings which have had excavation commence up to the time they have received a C of O.

Proposed
Any planned office building or assemblage that has not yet begun excavation.

Key
Hotel industry standard unit for determining rates. May refer to one or more rooms.

Primary
Buildings which are well-located, professionally managed and maintained, attract high quality tenants, and command upper tier rental rates. Structures are modern or have been modernized to compete successfully with new buildings.

Secondary
Buildings with less than three of the characteristics listed above.

Leasing Activity
The sum of all completed transactions for a given period of time, including sublet space. It also includes preleasing and expansion activity, but excludes lease renewals.

Rental Rates
The average annual asking rental rates quoted by the landlord, sublandlord or their agents. All rates are gross rates per rentable square foot and include sublease space.

Symbols

N/A	not available
FAR	floor area ratio
sf	square foot
psf	per square foot
msf	million square feet

Offices

Headquarters

1166 Avenue of the Americas
New York, New York 10036

Arizona

Phoenix

California

Century City/Beverly Hills
Contra Costa
Los Angeles
Los Angeles North
(San Fernando/Ventura County)
Los Angeles South
Newport Beach/Irvine
Oakland
Ontario
Orange/Anaheim
San Francisco
San Francisco Peninsula
(San Mateo County)
San Jose

Colorado

Denver

Connecticut

Hartford
Stamford

District of Columbia

Washington
Washington Suburban/
Vienna, Virginia

Florida

Ft. Lauderdale
Miami
Orlando
Tampa
West Palm Beach

Georgia

Atlanta
North Atlanta

Illinois

Chicago
Chicago Suburban

Kentucky

Louisville

Massachusetts

Boston

Michigan

Southfield

Missouri

St. Louis

New Jersey

East Rutherford
Edison
Parsippany
Princeton

New York

Long Island
New York (Downtown)
New York (Midtown)

North Carolina

Raleigh/Durham

Oregon

Portland

Pennsylvania

Lehigh Valley
Philadelphia
Pittsburgh

Tennessee

Memphis
Nashville

Texas

Austin
Dallas
Dallas Suburban
Houston
San Antonio

Washington

Bellevue
Seattle

CUSHMAN & WAKEFIELD

Business America's Real Estate Firm

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1991

Focus on Manhattantrends

CUSHMAN & WAKEFIELD.
A ROCKEFELLER GROUP COMPANY

Business America's Real Estate Firm

Manhattan's commercial real estate market shifted dramatically in the last 12 months: new development begun several years ago was completed this year, creating an overbuilt marketplace instead of filling an anticipated demand.

The economy was buffeted by layoffs on Wall Street, relocations out of New York and the downturn in the national economy. In 1990, these events increased the supply of existing office space competing with new development.

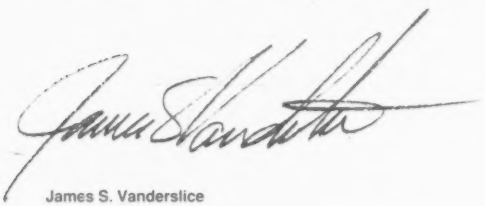
As we forecast the market for 1991, we expect vacancies in all sectors of the market to increase, forcing aggressive concessions by landlords to attract new tenants. In spite of the difficulties New York will face in commercial real estate, the good news will be lower occupancy costs for companies, as the market will offer many attractive location alternatives.

Investment in the real estate market has suffered from the same influences as the office leasing market. Prices will fall in the next few years creating opportunities for new ownership to reposition properties as demand comes more in line with supply.

Real estate markets, both locally and nationally, are moving through a difficult period. At Cushman & Wakefield, we see that our corporate clients recognize value in New York, and are aware of the financial rewards that can be gained here.

As we move toward the 21st century, Cushman & Wakefield is prepared to meet our clients' needs with commercial and industrial brokerage; financial, appraisal and management services; development consulting and market research.

I trust you will find the **1991 Focus on Manhattantrends** *a helpful document that will assist you in making your real estate decisions now and in the future.*



James S. Vanderslice
Managing Director
Branch Manager, New York Offices
Cushman & Wakefield, Inc.

INTRODUCTION

The Manhattan commercial real estate market in 1990 reflected the slowdown in the national and local economies. Numerous forces contributed to a significant downturn in the market, resulting in an oversupply of vacant space in existing and newly completed office buildings.

Overall leasing activity reached 21.1 msf, down 7.7% from last year's level. Tenants, including Olwine, Connelly, Chase, O'Donnell & Wehyer as well as Time-Warner, capitalized on favorable rental rates and concession packages. Leasing by off-shore firms such as The Bank of Nova Scotia, Credit Lyonnais, Nomura Securities and Commerzbank AG increased, reaffirming Manhattan's international appeal.

Large blocks of space were added at an equal pace, however, preventing any real net absorption. During the year, the bankruptcies of firms such as Drexel Burnham Lambert, Integrated Resources and Laventhol & Horwath, as well as buildings including 380 Madison Avenue and 1515 Broadway, negatively impacted the market. Partial relocations of staff out of Manhattan by Philip Morris, Empire Blue Cross and Blue Shield and AT&T freed up considerable blocks of space. At the same time, firms in almost every industry reduced staff on all levels resulting in 45,000 jobs lost in New York City—approximately 1.5% of its total employment—in the 12 months ending October 1990.

Although no construction was completed Downtown, the Midtown market witnessed the completion of eight buildings totalling 4.0 msf, 69% of which was in Midtown West. Four of these buildings were the remaining projects created as a result of the City's tax incentive and floor area bonus plan offered to developers for new construction in this area. Diminished employment growth and slackened demand for office space led to only 19% of this space receiving tenant commitments.

As expected, vacancy rates for both markets increased due to continued corporate consolidations, bankruptcies, and relocations out of Manhattan. In addition, the completion of new construction in Midtown, with low occupancy rates, was also significantly responsible for the increase. In Midtown, the primary vacancy rate reached a high of 17.2% from 14.7% last year, and Downtown it increased to 16.1% from 1989's 14.8%.

Asking rentals continued to decline in Midtown and Downtown, resulting from competition among landlords. The Midtown primary asking rental rate decreased only slightly in 1990 to $40.26 psf from $40.28 in 1989. The Downtown primary asking rental, however, decreased significantly to $32.99 psf from $34.26 in 1989.

DOWNTOWN

Despite continued corporate layoffs, Downtown leasing reached 5.2msf, 14.8% higher than last year's level. Surprisingly, the most active tenant was the City of New York which leased almost 700,000 sf. In the largest lease, Nomura Securities committed to 325,000 square feet of Merrill Lynch sublease space at Two World Financial Center.

MIDTOWN

In the Midtown market, substantial leasing commitments were made by such firms as the accounting firm of Coopers & Lybrand for 581,000 square feet and the banking concern Credit Lyonnais for 213,000 square feet both at 1301 Avenue of the Americas, J.C. Penney's former headquarters. In addition, 170,000 square feet of space previously occupied by Mobil Oil Corporation was leased by the law firm of Wilson, Elser, Moskowitz, Edelman & Dicker at 150 East 42nd Street. These transactions, however, could not boost activity to last year's level as 15.9 msf was leased in 1990, down 13.2% from 1989.

OUTLOOK FOR THE FUTURE

As the economy slips further into recession, the outlook becomes difficult to predict. The outcome of the Middle East crisis and the federal government's response to a weakening economy will be major determining factors. Although lower interest rates are a positive element, the possibility of higher inflation and increased taxes still looms in the distance.

The weakened condition of the Manhattan office market has been partially exacerbated by the tremendous amount of office space completed on the west side during the past two years. The completion of these projects coincided with the contraction in office demand resulting from the slowing economy and corporate consolidations.

If the current cycle of corporate cutbacks, reduced corporate profits, slowdowns in manufacturing, increased business failures, and reduced personal incomes continues to prevail, the City along with the nation will realize the negative repercussions. Also, the City's budget deficit, education and crime problems will contribute to the questionable future of employment growth and demand for office space in Manhattan.

The New York City economy and real estate market face a number of challenges. It remains, however, an international city with a diversified economic base which should support a stable economy. In addition, current development is at a standstill and future development will be deterred by an oversupply of space. In the short term, the New York office market may suffer. In the long term, however, Manhattan will maintain its global leadership position.

FORECAST

Forecasting the real estate market in Manhattan involves analyzing many variables to determine a projection which best reflects market conditions. Cushman & Wakefield has developed a proprietary model which projects primary space vacancy levels in light of varying economic scenarios.

Incorporated into the model are projections of employment growth from 1991 through 1993, which are, in turn, translated into future demand for office space. In making such projections, Cushman & Wakefield has presumed that in 1991 job losses will continue in the FIRE (Finance, Insurance and Real Estate) industries. In other industries, the level of employment change varies under the different scenarios.

In all three cases, corporate relocations were factored into the projections, maintaining last year's pace in the Best case but increasing in the Moderate and Worst cases. Additional corporate consolidations, especially in the banking community, also were accounted for in the Moderate and Worst cases.

Supply was determined by an analysis of delivery dates for office construction slated for completion by 1993. In the Downtown market, it was determined that no construction will be completed during that time. In the Midtown market, Cushman & Wakefield assumed that proposed construction scheduled for 1992 and 1993 will be delayed at least one to two years.

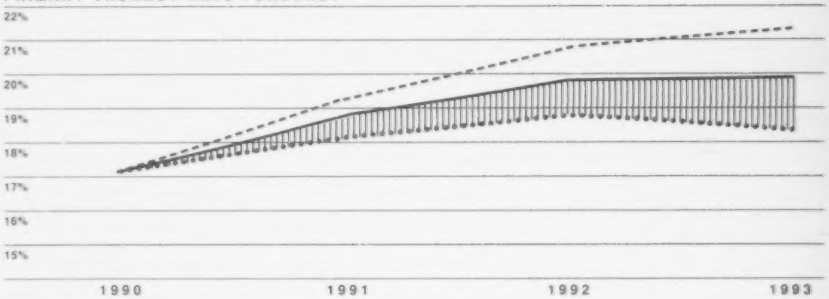
The charts depict future fluctuations in the primary space vacancy rate for each scenario. In the Best case, an economic recovery is forecasted in 1993. The Moderate and Worst cases assume conditions will improve by 1993, but not by enough to generate increased demand for office space. The Worst case indicates an extreme to which the market may fluctuate depending on the severity of the economic downturn.

MIDTOWN

Cushman & Wakefield estimates that during 1991 the primary space vacancy rate should increase in Midtown to a range between 18.3% and 19.3%. Employment growth will be limited in many industries, while job losses will continue in the financial services, insurance and real estate industries. In addition, five buildings totalling two million square feet are scheduled for completion in 1991.

Although new construction scheduled for 1992 and beyond is expected to be delayed, the vacancy rate should rise in 1992 to between 18.8% and 20.8%, as demand for space will continue to be stalled. In the Best case scenario, the vacancy rate should decrease to 18.4% in 1993 as employment growth begins to rebound. In the Worst case, however, the vacancy rate should increase to 21.4% under the assumption that economic conditions will not improve.

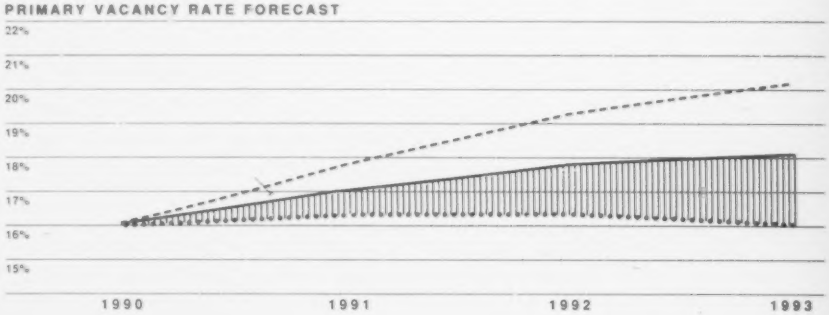
PRIMARY VACANCY RATE FORECAST



DOWNTOWN

The primary space vacancy rate for Downtown should rise in 1991. A rate in the range between 16.4 and 17.9% seems most likely as the Downtown market continues to be plagued by corporate consolidations and bankruptcies in financial services and securities firms. In the Best case forecast, the vacancy rate should remain stable at 16.4% in 1992. If major layoffs in the financial services industry continue, however, the vacancy rate could rise to 19.3%. By 1993, the vacancy rate will begin to decrease to 16.0% under the Best case scenario but increase to 20.3% if the market continues its downturn. No new construction is scheduled Downtown until 1994, which should keep vacancy rates from increasing beyond these levels.

PRIMARY VACANCY RATE FORECAST



--- Worst • • • Best — Moderate ||||| Most Likely

MIDTOWN BOUNDARIES

1 Midtown South
Canal Street to West 30th and East 32nd Streets, Hudson River to East River

2 Grand Central
32nd to 47nd Streets, East of Fifth Avenue

3 Plaza
47th to 65th Streets, East of Seventh Avenue

4 Midtown West
30th to 47th Streets, West of Fifth Avenue, 47th to 65th Streets, West of Seventh Avenue

DOWNTOWN BOUNDARIES

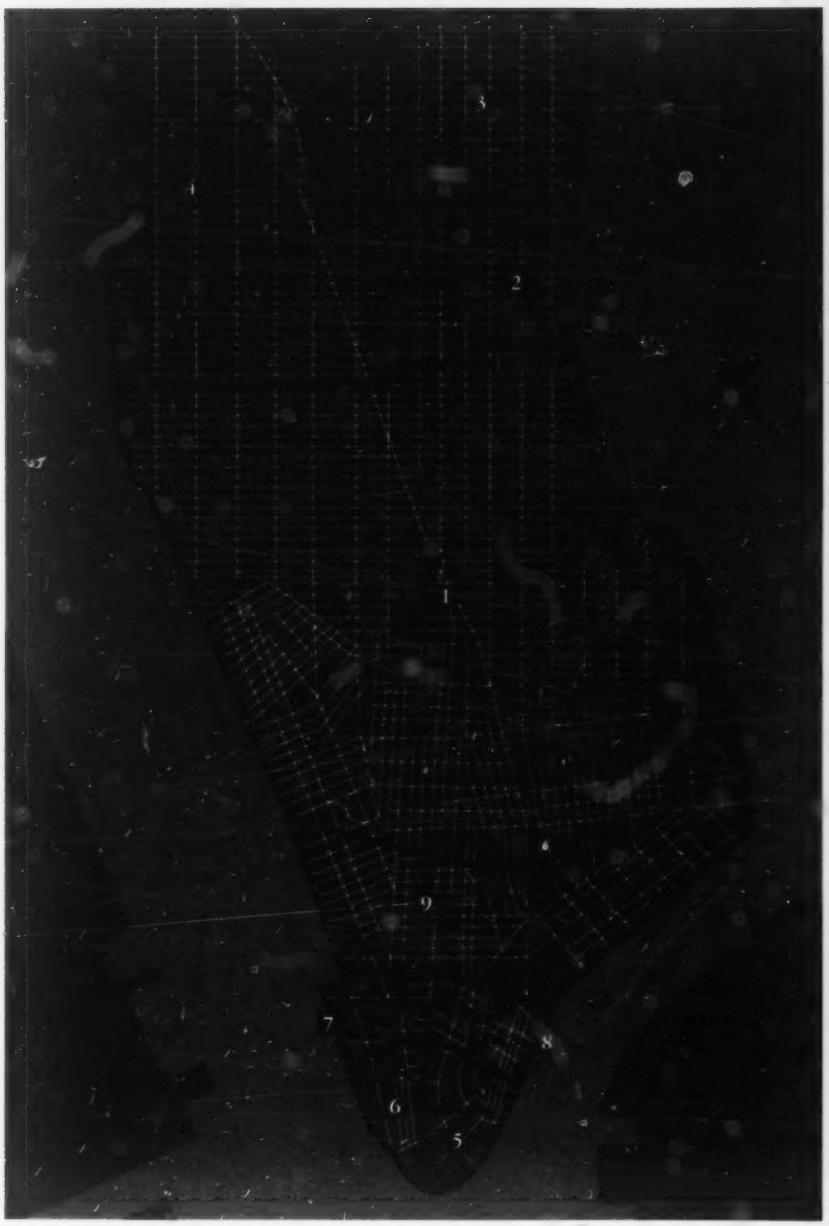
5 Financial East
Battery Park, Broadway, Liberty St., William St., Pine St., and East River

6 Financial West
Battery Park, Hudson River, Albany St., Greenwich St., Liberty St., and Broadway

7 World Trade
Albany St., Hudson River, Chambers St., Church St., Vesey St., Broadway, Liberty St., and Greenwich St.

8 Insurance
Pine St., William St., Liberty St., Broadway, Park Row, and Brooklyn Bridge

9 City Hall
Brooklyn Bridge, Park Row, Church St., Vesey St., Chambers St., Hudson St., and East River



MIDTOWN REVIEW

QUARTERLY LEASING ACTIVITY	
1ST	4,956,800 sf
2ND	3,735,500 sf
3RD	4,244,300 sf
4TH	2,956,400 sf

1987-1990 LEASING ACTIVITY	
1987	19,182,000 sf
1988	17,898,400 sf
1989	18,317,700 sf
1990	15,893,000 sf

QUARTERLY PRIMARY VACANCY RATES	
1ST	15.5%
2ND	16.3%
3RD	16.1%
4TH	17.2%

1987-1990 PRIMARY VACANCY RATES	
1987	10.2%
1988	13.0%
1989	14.7%
1990	17.2%

QUARTERLY SECONDARY VACANCY RATES	
1ST	15.5%
2ND	16.1%
3RD	16.8%
4TH	16.8%

1987-1990 SECONDARY VACANCY RATES	
1987	13.3%
1988	14.7%
1989	15.1%
1990	16.8%

QUARTERLY PRIMARY AVERAGE ASKING RENTALS	
1ST	$40.05
2ND	$40.18
3RD	$39.96
4TH	$40.26

1987-1990 PRIMARY AVERAGE ASKING RENTALS	
1987	$38.46
1988	$39.45
1989	$40.28
1990	$40.26

QUARTERLY SECONDARY AVERAGE ASKING RENTALS	
1ST	$22.00
2ND	$21.72
3RD	$21.37
4TH	$21.10

1987-1990 SECONDARY AVERAGE ASKING RENTALS	
1987	$23.76
1988	$23.47
1989	$23.26
1990	$21.10

Primary Inventory—169,584,300 sf
Secondary Inventory—75,378,500 sf

DOWNTOWN REVIEW

QUARTERLY LEASING ACTIVITY	
1ST	1,694,200 sf
2ND	1,081,700 sf
3RD	1,270,400 sf
4TH	1,185,300 sf

1987-1990 LEASING ACTIVITY	
1987	6,934,400 sf
1988	5,510,300 sf
1989	4,556,600 sf
1990	5,231,600 sf

QUARTERLY PRIMARY VACANCY RATES	
1ST	15.1%
2ND	16.6%
3RD	15.9%
4TH	16.1%

1987-1990 PRIMARY VACANCY RATES	
1987	11.5%
1988	11.9%
1989	14.8%
1990	16.1%

QUARTERLY SECONDARY VACANCY RATES	
1ST	22.6%
2ND	23.9%
3RD	24.6%
4TH	23.3%

1987-1990 SECONDARY VACANCY RATES	
1987	12.6%
1988	19.3%
1989	22.3%
1990	23.3%

QUARTERLY PRIMARY AVERAGE ASKING RENTALS	
1ST	$34.33
2ND	$34.41
3RD	$33.99
4TH	$32.99

1987-1990 PRIMARY AVERAGE ASKING RENTALS	
1987	$38.67
1988	$36.06
1989	$34.26
1990	$32.99

QUARTERLY SECONDARY AVERAGE ASKING RENTALS	
1ST	$23.08
2ND	$23.01
3RD	$22.32
4TH	$22.58

1987-1990 SECONDARY AVERAGE ASKING RENTALS	
1987	$24.03
1988	$24.89
1989	$23.66
1990	$22.58

Primary Inventory—79,652,800 sf
Secondary Inventory—28,363,500 sf

MIDTOWN SOUTH

Midtown South, impacted by slower leasing activity and the bankruptcy of Integrated Resources, nearly doubled its primary vacancy rate from 1989.

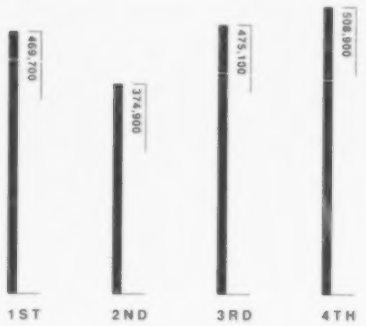
Leasing activity reached only 1.8 msf, down from the 2.9 msf leased in 1989. The two largest leases were signed at 375 Hudson Street by Turner Construction Co. for 100,000 sf and by National Cleaning Contractors Corporation for 65,800 sf. In addition, Sperry & Hutchinson Co. committed to 40,000 sf at 315 Park Avenue South and NYANA (New York Association for New Americans) leased 36,000 sf at 111 Fifth Avenue.

Minimal leasing activity was contributed by the bankruptcy of Integrated Resources which resulted in 350,000 sf of space becoming available at 10 Union Square. As a result, the primary vacancy rate increased to 9.4% from 6.6% in 1989. The secondary vacancy rate also increased substantially to 18.8% from 15.6% in 1989.

The Midtown South market had some positive news this year as secondary buildings became increasingly popular with investors. Purchases included 15 East 26th Street, a 20-story 330,000 sf building by Schroder Real Estate for $37 million, and 276 Fifth Avenue, an 11-story 154,000 sf building by TNY Corporation Ltd. for $25 million.

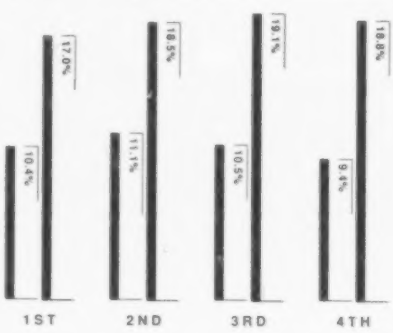
Rental rates remained the lowest in Manhattan with the primary asking rate at $24.87 psf and the secondary asking rate at $18.41. With this district's significant secondary inventory, Cushman & Wakefield contends renovation will be essential to maintain and attract tenants. As rental concessions increase in other districts, however, Midtown South will face even greater competition.

QUARTERLY LEASING ACTIVITY*

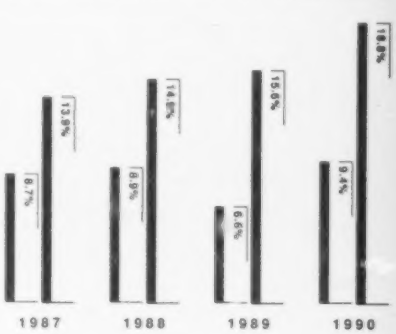


1987-1990 LEASING ACTIVITY*

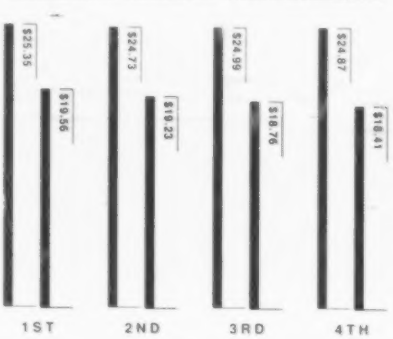
QUARTERLY VACANCY RATES



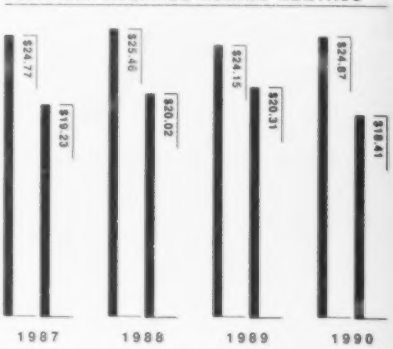
1987-1990 VACANCY RATES



QUARTERLY AVERAGE ASKING RENTALS



1987-1990 AVERAGE ASKING RENTALS



Primary Rate Secondary Rate

*Represents leasing activity in primary, secondary and buildings under construction.

Primary Inventory — 7,560,500 sf
Secondary Inventory — 31,926,300 sf

GRAND CENTRAL

A substantial slowdown in leasing and the addition of large blocks of space combined to increase the vacancy rate in the Grand Central district in 1990. The district was bolstered, however, when Random House, a major publisher, executed an agreement to net lease 825 Third Avenue, where it currently occupies one-half of the 450,000 sf building.

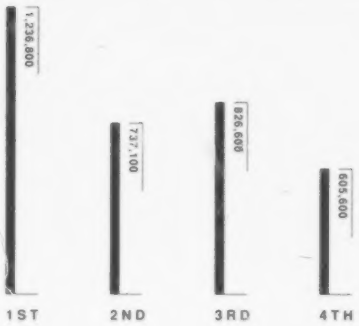
Leasing activity reached only 3.4 msf, down 15.7% from 1989. The law firm of Wilson, Elser, Moskowitz, Edelman & Dicker signed the largest transaction in the district for 170,000 sf at the former Mobil Building at 150 East 42nd Street. Offsetting this lease was the addition of 140,000 sf at 420 Lexington Avenue in anticipation of the law firm's relocation.

Further space additions included 195,000 sf at 100 Park Avenue due to the partial relocation of Philip Morris to Westchester; 170,000 sf at 605 Third Avenue due to the bankruptcy of Laventhol & Horwath; and 187,000 sf at 633 Third Avenue due to the relocation of personnel at Empire Blue Cross and Blue Shield.

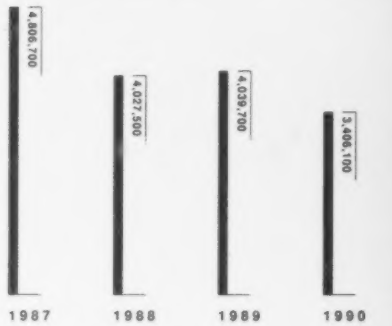
The primary vacancy rate rose to 17.1% in 1990 from 14.4% in 1989 due to these additions. Primary asking rentals decreased slightly to $36.84 psf from $37.86 in 1989 as the space added on Third Avenue commanded lower asking rentals than elsewhere in the district.

The only building currently under construction in the district is 450 Lexington Avenue, a 900,000 sf building scheduled for completion in 1992 and already over 50% leased by the law firm of Davis Polk & Wardwell. No other construction is planned for the next two years, which may allow for the eventual absorption of many of the large blocks currently available in the Grand Central district.

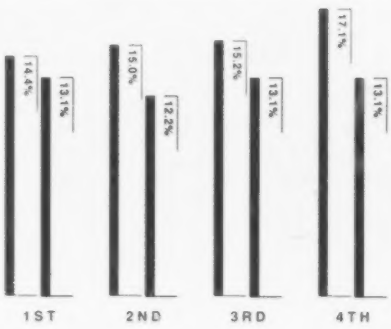
QUARTERLY LEASING ACTIVITY*



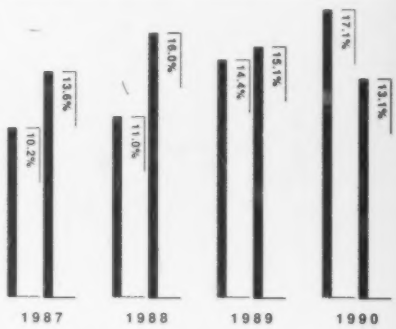
1987-1990 LEASING ACTIVITY*



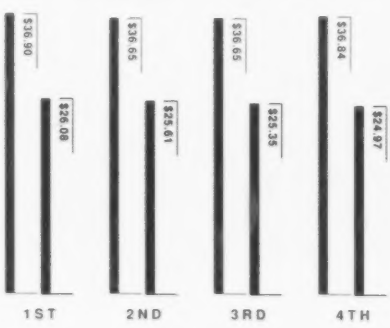
QUARTERLY VACANCY RATES



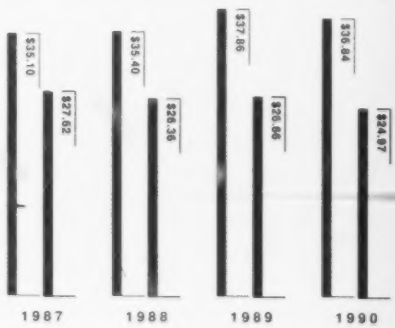
1987-1990 VACANCY RATES



QUARTERLY AVERAGE ASKING RENTALS



1987-1990 AVERAGE ASKING RENTALS



■ Primary Rate ■ Secondary Rate

*Represents leasing activity in primary, secondary and buildings under construction.

Primary Inventory — 41,471,700 sf
Secondary Inventory — 10,114,200 sf

PLAZA

The Plaza district continued to maintain its position as the premier office location in Midtown, securing four of the five largest leases of the year. Corporate consolidations and construction completions with low occupancy levels, nonetheless, caused the primary vacancy rate to increase.

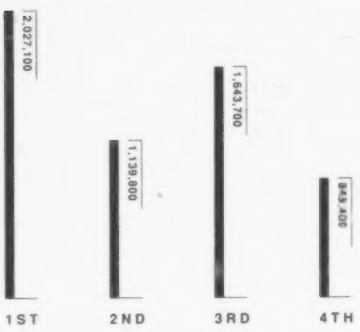
The two largest transactions were Coopers & Lybrand and Credit Lyonnais for 580,000 sf and 214,000 sf, respectively, at 1301 Avenue of the Americas. Time-Warner consolidated four of its operations to 132,000 sf at 1325 Avenue of the Americas and Citibank committed to 121,000 sf at 919 Third Avenue. District leasing activity of 5.7 msf, however, failed to match last year's total of 6.1 msf.

Three buildings were completed in the district adding 1.3 msf, of which only 27.6% was leased. In addition, several large blocks of space were added to the market including 225,000 sf by Shearson Lehman Hutton at 31 West 52nd Street and 235,000 sf by the law firm of Proskauer, Rose, Goetz & Mendelsohn relocating from 300 Park Avenue to Midtown West. In addition, AT&T placed 800,000 sf on the market at its corporate headquarters at 550 Madison Avenue.

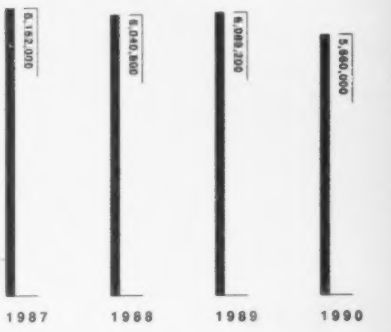
The primary vacancy rate in the district increased to 16.9% from 15.1% at the end of 1989. Primary asking rentals decreased to $45.29 from $45.56 psf in 1989 as some owners decreased asking rentals to compete with the many large blocks of space available in Midtown.

Only one large development, Rockefeller Plaza West, a 1.6 msf building at 745 Seventh Avenue is planned during the next four years. This should allow for the large blocks of space currently available to be absorbed and help reduce the vacancy rate.

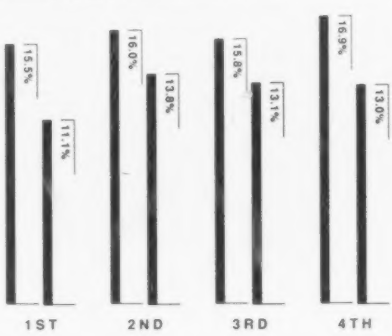
QUARTERLY LEASING ACTIVITY*



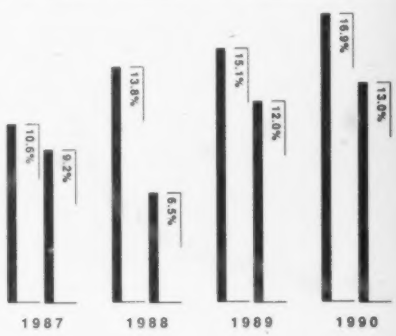
1987-1990 LEASING ACTIVITY*



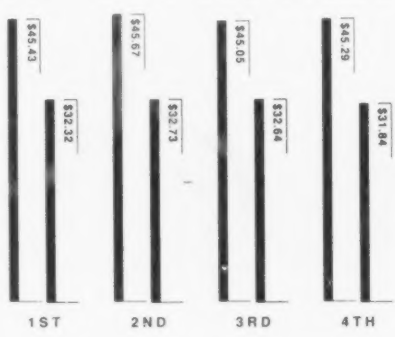
QUARTERLY VACANCY RATES



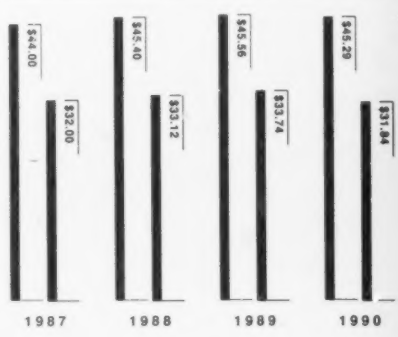
1987-1990 VACANCY RATES



QUARTERLY AVERAGE ASKING RENTALS



1987-1990 AVERAGE ASKING RENTALS



Primary Rate Secondary Rate

*Represents leasing activity in primary, secondary and buildings under construction.

Primary Inventory — 81,539,400 sf
Secondary Inventory — 4,343,300 sf

MIDTOWN WEST

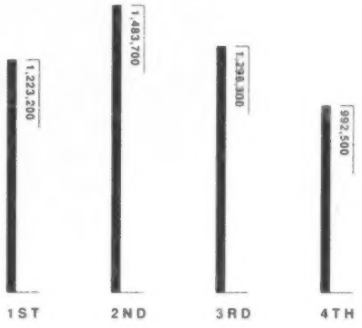
New construction continued to dominate Midtown West as five buildings were completed totalling 2.87 msf, four of which were the result of the City zoning bonus and tax deferral program. Only 15.5% was leased in these buildings contributing to a substantial increase in the primary vacancy rate.

Construction completions caused the primary vacancy rate to increase to 19.7% from 16.0% in 1989. Primary asking rentals also increased to $35.85 psf from $32.95 in 1989 as the new construction completions had higher asking rentals than space in existing buildings.

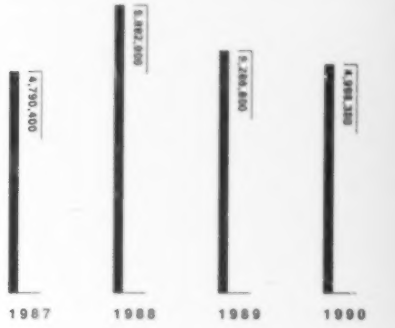
Leasing activity reached 5.0 msf, down from 5.3 msf leased in 1989. Firms opting for space included Fairchild Publications for 145,000 sf at the recently renovated 7 West 34th Street, the law firm of Olwine, Connelly, Chase, O'Donnell & Wehyer for 110,000 sf at the recently completed 750 Seventh Avenue, and The New Yorker magazine for 102,000 sf at 11 West 42nd Street.

Except for the Times Square redevelopment project, the pace of construction will slow significantly in the next five years in Midtown West. Further development will be hindered by current economic conditions, opposition by community groups and the difficulty in obtaining zoning approvals. This contraction in development should alleviate pressure on the vacancy rate in the next few years.

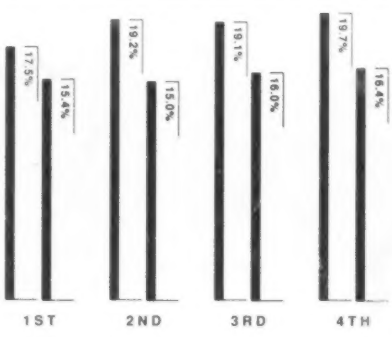
QUARTERLY LEASING ACTIVITY*



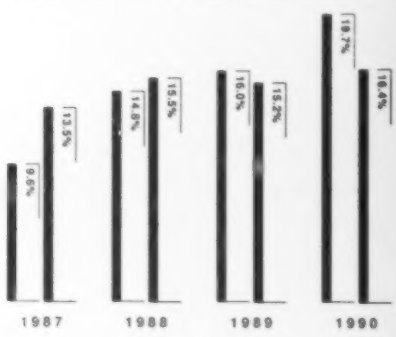
1987-1990 LEASING ACTIVITY*



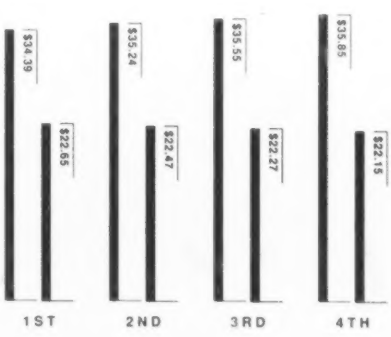
QUARTERLY VACANCY RATES



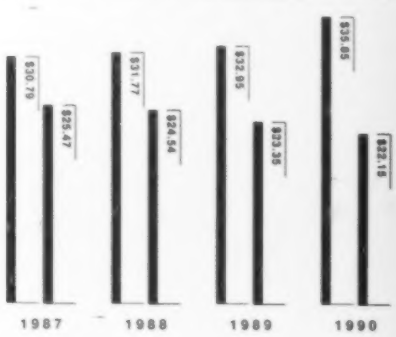
1987-1990 VACANCY RATES



QUARTERLY AVERAGE ASKING RENTALS



1987-1990 AVERAGE ASKING RENTALS



■ Primary Rate ■ Secondary Rate

*Represents leasing activity in primary, secondary and buildings under construction.

Primary Inventory — 39,012,700 sf
Secondary Inventory — 28,994,700 sf

FINANCIAL EAST

Cutbacks and relocations, primarily in the financial services industry, resulted in a substantial increase in the primary vacancy rate in the Financial East district.

The leasing of more than 1.5 msf could not offset the addition of substantial blocks of space, making the district the second most active this year. Over 800,000 sf was added to the market due to the bankruptcy of Drexel Burnham Lambert. In addition, Salomon Brothers placed 500,000 sf on the market in anticipation of its relocation to Seven World Trade Center.

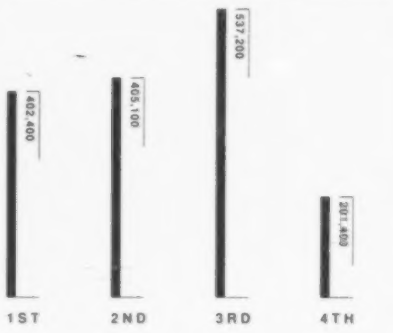
In some of the district's major activity, the law firm of Milbank Tweed Hadley & McCloy exercised a renewal and expansion option for 136,000 sf at One Chase Manhattan Plaza. Kidder Peabody leased 135,000 sf of former Drexel Burnham Lambert space at 60 Broad Street, and Prudential-Bache Securities committed to 98,200 sf at Financial Square.

The Financial East district saw the sale of two major buildings: Tokyo-based Kajima Corporation purchased 55 Wall Street for approximately $70 million, and Chase Manhattan Bank purchased One New York Plaza reportedly for $140 million.

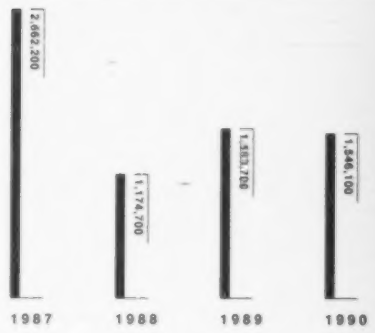
The primary vacancy rate rose to 22.6% in 1990 from 18.7% last year. In response to an increasing vacancy rate, asking rentals reached their lowest levels since 1985, falling to $32.98 psf from $33.36 in 1989.

The abundance of office space and the rising vacancy rate in the district will be linked to economic factors in 1991. Further retrenchment in the financial services sector will delay immediate recovery; however, no new development should help ease vacancy levels.

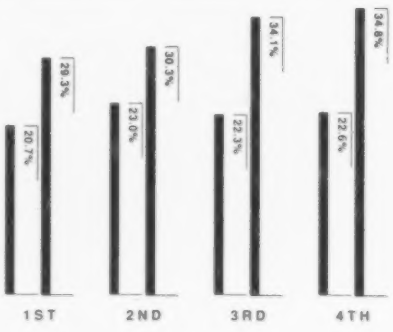
QUARTERLY LEASING ACTIVITY*



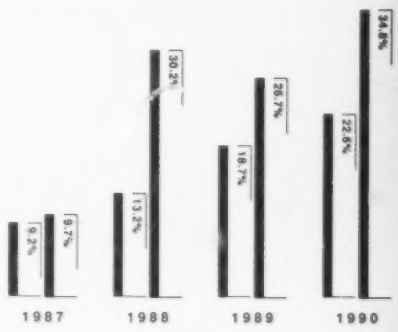
1987-1990 LEASING ACTIVITY*



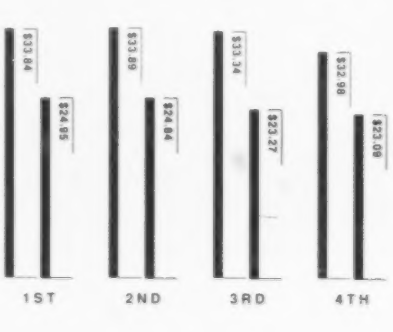
QUARTERLY VACANCY RATES



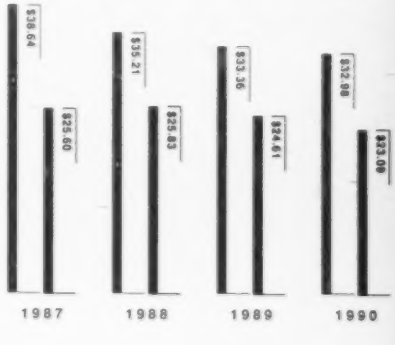
1987-1990 VACANCY RATES



QUARTERLY AVERAGE ASKING RENTALS



1987-1990 AVERAGE ASKING RENTALS



■ Primary Rate ■ Secondary Rate

*Represents leasing activity in primary, secondary and buildings under construction.

Primary Inventory — 34,045,900 sf
Secondary Inventory — 7,428,500 sf

FINANCIAL WEST

Leasing in the secondary market highlighted activity in Financial West in 1990.

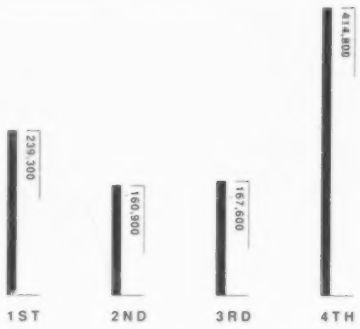
Secondary leasing totalled 905,000 sf, much of which was comprised of commitments City of New York: at 17 Battery Place North and South, the City executed the second largest transaction Downtown this year by leasing 288,000 sf; at 19 Rector Street, the City's Public Administration Department leased 114,400 sf; and at 2 Rector Street, the Department of Transportation leased 77,000 sf. In other activity, 17 State Street received a major commitment from AXA Reinsurance for 27,000 sf.

As a result of consolidating back-office operations with Irving Trust at 101 Barclay Street, The Bank of New York added a total of 825,200 sf to the market, vacating space at 21 West Street and 90 and 110 Washington Street. Restructuring at Equitable Life Assurance prompted the addition of 101,500 sf at 40 Rector Street, while the bankruptcy of J.T. Moran added 44,800 sf to the market at 45 Broadway Atrium.

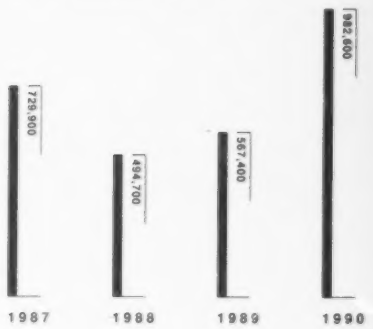
The secondary vacancy rate dropped dramatically to 28.4% in 1990 from 34.4% in 1989. The secondary asking rental rate also decreased to $22.44 in 1990 from $23.62 psf.

With its abundance of secondary space at competitive asking rentals, Financial West will continue to be attractive to cost-conscious tenants.

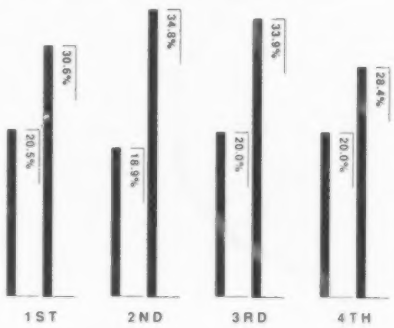
QUARTERLY LEASING ACTIVITY*



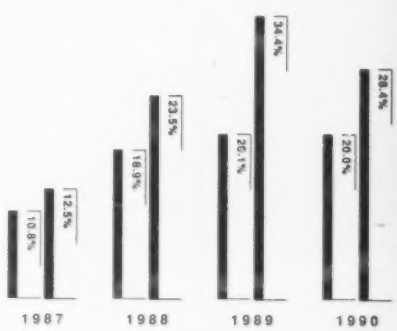
1987-1990 LEASING ACTIVITY*



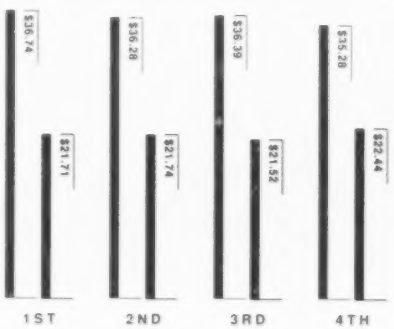
QUARTERLY VACANCY RATES



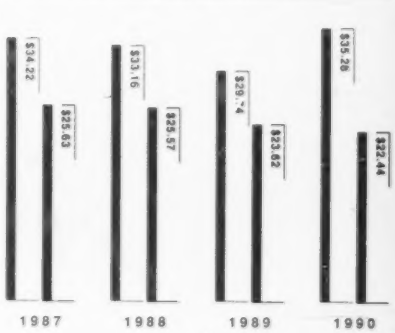
1987-1990 VACANCY RATES



QUARTERLY AVERAGE ASKING RENTALS



1987-1990 AVERAGE ASKING RENTALS



■ Primary Rate ■ Secondary Rate

*Represents leasing activity in primary, secondary and buildings under construction.

Primary Inventory — 829,200 sf
Secondary Inventory — 7,412,700 sf

WORLD TRADE

The World Trade district was the most active in the Downtown market this year boosted by commitments from international banks.

Leasing approached 2.0 msf and included the largest commitment Downtown—Nomura Securities' 325,000 sf sublease from Merrill Lynch at Two World Financial Center. Other international firms committing to space at Two World Financial Center included Commerzbank AG, Mitsui Trust Bank USA, and Yasuda Fire & Marine.

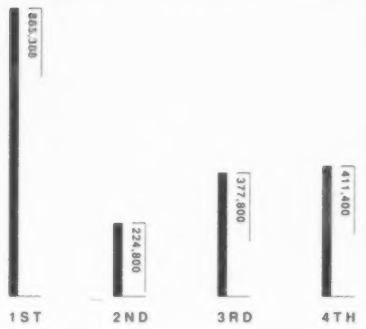
One Liberty Plaza also emerged as one of the district's most active properties, closing over 550,000 sf in commitments from tenants such as the law firm of Cleary Gottlieb Steen & Hamilton, The Bank of Nova Scotia and Fireman's Fund Insurance.

Large blocks of space were put on the market by two institutions. Shearson Lehman Brothers added 200,000 sf at Two World Trade Center as it has relocated to 388 Greenwich Street; and The Port Authority, which consolidated some of its operations, offered 143,000 sf at One World Trade Center.

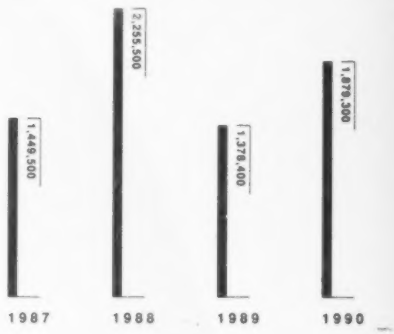
Despite these additions, strong leasing activity helped to ease the primary vacancy rate this year to 11.2% from 14.0% in 1989. The primary asking rental fell to $36.18 psf from $37.55 due to the leasing of much of the higher priced space in the district.

After intense negotiations with officials from both New York and New Jersey, the Commodities Exchange decided to remain in New York City. The new Commodities Exchange building, planned for completion in 1994, is located at a municipal site on West Street. With no other new buildings scheduled for completion in the district for the next three years, further tightening of the primary vacancy rate can be expected.

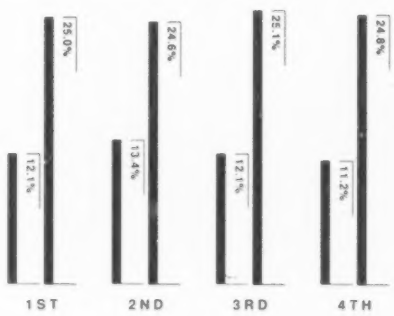
QUARTERLY LEASING ACTIVITY*



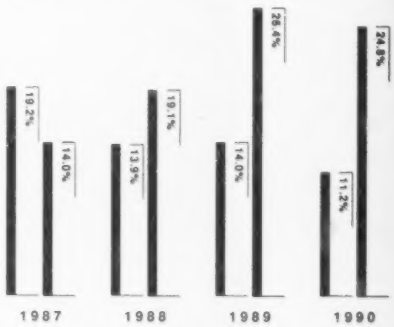
1987-1990 LEASING ACTIVITY*



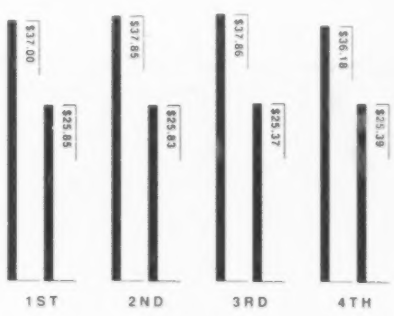
QUARTERLY VACANCY RATES



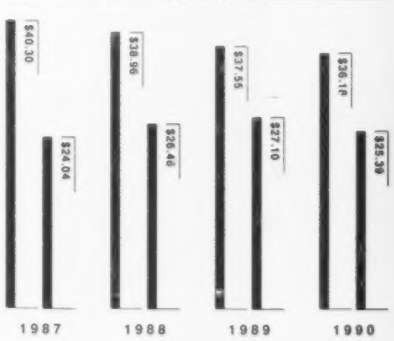
1987-1990 VACANCY RATES



QUARTERLY AVERAGE ASKING RENTALS



1987-1990 AVERAGE ASKING RENTALS



Primary Rate Secondary Rate

*Represents leasing activity in primary, secondary and buildings under construction.

Primary Inventory — 26,035,300 sf
Secondary Inventory — 1,789,400 sf

INSURANCE

Additions of large blocks of space and weak leasing plagued the Insurance district in 1990 causing the primary vacancy rate to increase 3.8 percentage points from last year.

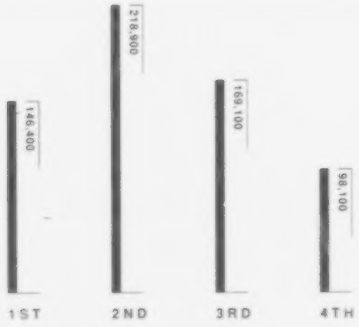
Leasing activity for the year reached only 632,500 square feet, a new low for the district. Major deals included the most active tenant downtown, the City of New York, committing to 25,200 sf at 150 Nassau Street. Both Deleuw Cather & Co. and American International Group signed major leases at 110 William Street for 37,000 sf and 31,400 sf, respectively. Health Insurance Plan (HIP) leased 35,000 sf at 59 Maiden Lane while Daiwa Bank leased 29,800 sf at 199 Water Street. Forty Fulton Street, a speculative building completed last year, signed its first tenant, Perry Weitz Law Offices for 14,700 sf.

The additions of large blocks of space placed upward pressure on vacancy rates. CIGNA Nationwide's plan to move 150 workers to Philadelphia and transfer 350 employees to 195 Broadway resulted in 198,000 sf added at 127 John Street. Similarly, in preparation for its relocation to Seven World Trade Center, Insurance Services Office, Inc. placed 169,000 sf on the market.

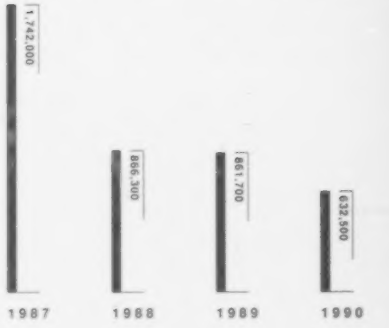
The primary vacancy rate reached a new high of 15.9% up significantly from 12.1% last year. In response to increasing vacancy levels, primary asking rentals fell dramatically to $28.33 psf from $31.21 in 1989.

With no new developments planned for the next few years, excess space should be absorbed in the Insurance district. Yet, the future growth of insurance firms and their commitment to the district will determine demand for this location.

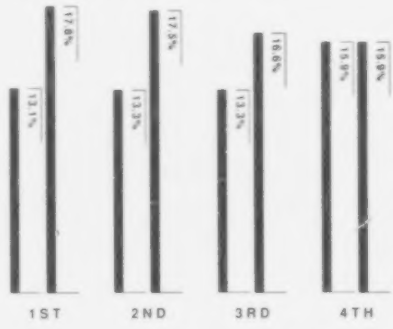
QUARTERLY LEASING ACTIVITY*



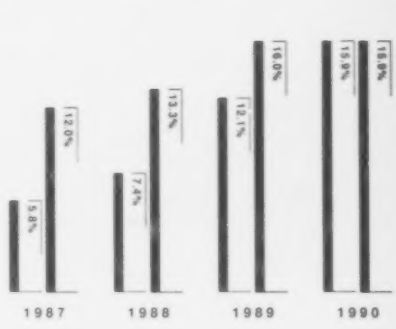
1987-1990 LEASING ACTIVITY*



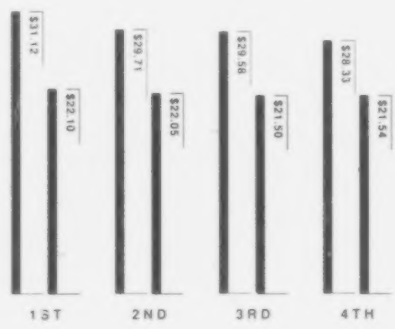
QUARTERLY VACANCY RATES



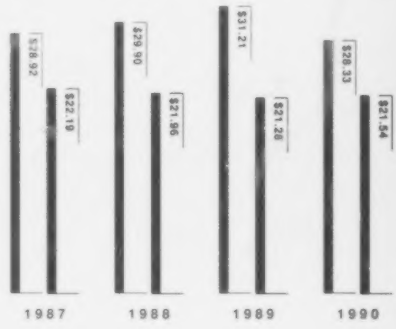
1987-1990 VACANCY RATES



QUARTERLY AVERAGE ASKING RENTALS



1987-1990 AVERAGE ASKING RENTALS



■ Primary Rate ▒ Secondary Rate

*Represents leasing activity in primary, secondary and buildings under construction.

Primary Inventory — 12,828,200 sf
Secondary Inventory — 5,251,700 sf

CITY HALL

The City Hall district continued to maintain the lowest vacancy rates in the Downtown market in 1990.

Total district leasing in 1990 was 191,000 sf, up 15% from 1989. Only four major deals closed this year: the State Liquor Authority's 65,600 sf lease at 250 Broadway; US Sprint Communications and Cable & Wireless Communications at 60 Hudson Street for 27,000 sf and 12,500 sf, respectively; and Community Action for Legal Services Inc. for 10,000 sf at 350 Broadway.

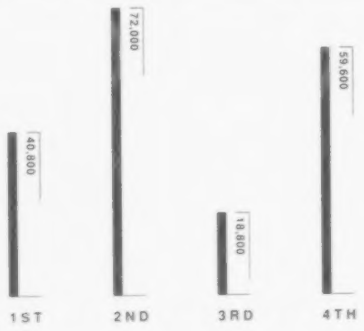
In the only development scheduled in the City Hall district, the General Services Administration is proceeding on an 800,000 sf project at 290 Broadway. Construction on the site, which will provide new courtrooms and expansion space for federal agencies, is expected to begin in 1991.

The vacancy rate for primary office buildings continued to remain at less than 1% closing at 0.3% in 1990, reflecting steadfast occupancy by city, state and federal agencies. Secondary space, which comprises 53% of the inventory, had a vacancy rate of 9.8%, up from 9.1% last year.

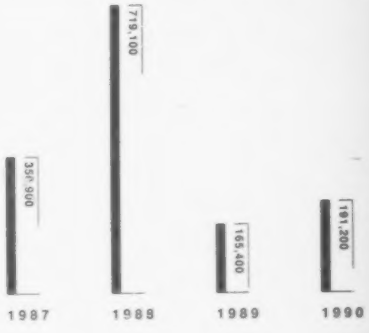
Primary and secondary asking rentals experienced minimal change. The primary asking rental rate closed at $25.43 psf, while the secondary asking rental fell slightly to $20.32 psf from $20.92 in 1989.

With no major blocks of space over 10,000 sf added to the district this year, the market for office space is expected to tighten. Uncertainty in the economy and attempts to balance government budget deficits, however, will dictate future demand.

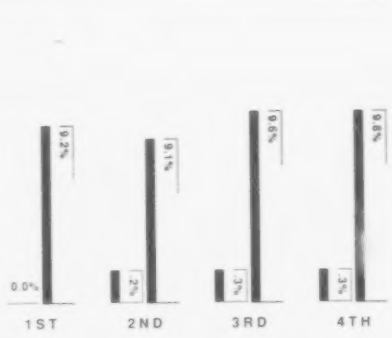
QUARTERLY LEASING ACTIVITY*



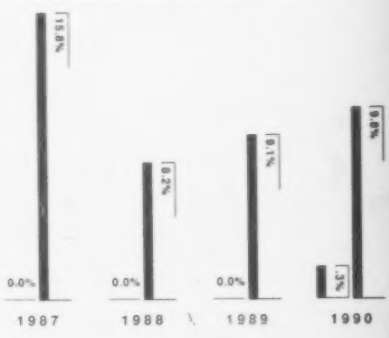
1987-1990 LEASING ACTIVITY*



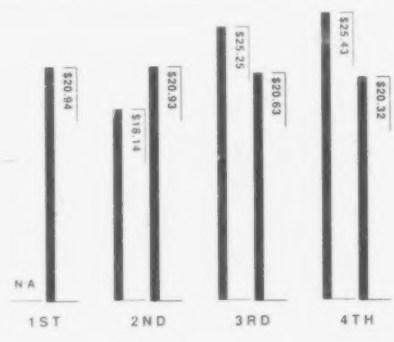
QUARTERLY VACANCY RATES



1987-1990 VACANCY RATES



QUARTERLY AVERAGE ASKING RENTALS



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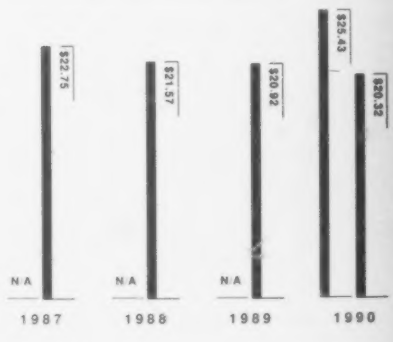

Primary Rate Secondary Rate

*Represents leasing activity in primary, secondary and buildings under construction.

Primary Inventory — 5,914,200 sf
Secondary Inventory — 6,481,200 sf

INVESTMENT MARKET

1990 was a year of financial descent in the Manhattan real estate market. It began as a year of caution and uncertainty for owners, investors and lenders. As the year progressed, declining corporate profits, heavy interest payments, outstanding debt and corporate relocations brought on debt restructurings, foreclosures and bankruptcies. Normally fueling the city's economy, Manhattan's core industries — financial services and securities — are the source for today's troubling market.

MARKET

Growing delinquencies and defaults were widespread, including Equitable's 1515 Broadway and Howard Ronson's 380 Madison Avenue. Additional foreclosures continued as lenders took back properties, such as FIA's St. Moritz Hotel, T.I.A.A.'s 17 State Street, and General Electric Pension Fund's 410 Park Avenue. Purchasing properties out of foreclosure auctions was a growing trend for 1990: Tower 52 sold for $50 million; The Adams Hotel, for $38 million; and 40 Wall Street, for $70 million. Partnership disputes also fueled the problems in the market such as New York Land and K.G. Land's Americas Tower, and the Bernsteins, the Philippine government, and Marcos's and Adnan Khashoggi's Crown Building.

FINANCE

The major sources of capital in the 1980s, such as the savings and loans, commercial banks and tax-driven partnerships, are no longer readily available. Commercial lenders have become more prudent about financing new development, thus substantially reducing the amount of commercial construction. Top financings for 1990 included Asahi's convertible mortgage of $200 million at 100 Park Avenue, Metropolitan Life's first mortgage of $180 million at 575 Fifth, Fuji Bank's construction takeout loan of $125 million at Carnegie Hall Tower, and Yasuda Bank's permanent loan of $100 million at 101 Sixth Avenue.

SALES MARKET / FOREIGN INVESTMENT

As property prices have soared over the last eight years, we are now seeing adjustments in value. 1990 direct building sales were few with only four domestic sales of primary office property taking place: One New York Plaza for $140 million as Chase Manhattan Bank exercised its option to buy under a lease agreement structured years before; The Mendik Company in partnership with Chase Investors Management purchased the MONY Building for $108 million; United Bank of Switzerland, also exercising its option to buy, purchased 50% of 299 Park Avenue for $50 million; and The Metropolitan Transit Authority assemblage purchase of 341 and 345 Madison Avenue for $35.9 million. HAT Real Estate's purchase of 15 East 26th Street for $37.5 million was the only domestic secondary purchase.

Foreign investments were also few. Japanese institutions preferred convertible mortgages rather than the publicity of outright purchases. Only six Japanese purchases contributed to 1990's direct sales: Kajima Corp.'s 55 Wall Street for $70 million; Orient Leasing's 270 Madison Avenue for $51.5 million; Tobishima Associates' 515 Park Avenue purchase for $38.1 million; Touko America's assemblage site at 1-3 East 42nd for $30.5 million; Ise Hiyoko's 555 Broadway for $13.8 million; and Takenaka Corporation's unapportioned purchase of 145 West 57th Street for $12.3 million.

Other Asian purchasers speculated on smaller secondary buildings, especially for owner/user investments. Examples are Dong Chung's 276 Fifth Avenue for $24.9 million, and Compustar USA's 790 Madison for $23.2 million.

Clearly, 1990 was a year of three significant trends: 1) investment driven sales; 2) purchase options exercised under lease; and 3) assemblage purchases.

A LOOK AHEAD

As developers struggle to get projects off the ground, the biggest factor in today's market is the scarcity of traditional bank lending. With the current high vacancy rates and corporate bankruptcies, steady cash flow is not assured and, thus, the risks are greater. In addition, after the long expansion-driven real estate boom of the 1980s, Manhattan now has an abundance of office space. The magnitude of overbuilding coupled with the withdrawal of financiers signals a major shift of players in the real estate market.

During the early 1990s, leading sources of direct investment funding for institutional-quality office buildings will be domestic pension funds, insurance funds, European and Asian investors, and pools of equity capital for contrarian investments. In today's market, however, those investors with ready-cash are in a position to profit handsomely.

Both the number of liquid investors and available capital are shrinking and there will be little, if any, construction. Emphasis for 1991-1993 will be on redeveloping older properties for a higher use, acquiring underperforming properties and bringing them up to investment grade standards. Renovations and conversions will become a new wave for sales in the 1990s.

Survival in the 1990s will become critical. Investors interested in acquiring distressed properties will have to master new rules. A real buying opportunity exists in this market as prices have dropped significantly to reflect the uncertainty in the market.

GLOSSARY

INVENTORY
Includes buildings which have received a Certificate of Occupancy (C of O) as of December 31, 1990.

VACANCY RATE
Space, available both directly, and through a sublease, divided by the inventory. Space in buildings under construction is not included.

RECENTLY COMPLETED BUILDINGS
Buildings which have received their C of O in the stated year. In this report, it is buildings completed in 1990.

UNDER CONSTRUCTION
Buildings which have had excavation commence up to the time they have received a C of O.

PROPOSED
Any planned office building or assemblage that has not yet begun excavation.

PRIMARY
Buildings which are well-located, professionally managed and maintained, attract high-quality tenants, and command upper-tier rental rates. Structures are modern or have been modernized to compete successfully with new buildings.

SECONDARY
Buildings with less than three of the characteristics listed above.

LEASING ACTIVITY
The sum of all completed transactions for a given period of time, including sublet space. It also includes preleasing and expansion activity, but excludes lease renewals.

RENTAL RATES
The average annual asking rental rates quoted by the landlord, sublandlord or their agents. All rates are gross per rentable square foot and include sublease space.

SYMBOLS

N/A	not available
FAR	floor area ratio
sf	square foot/feet
psf	per square foot
msf	million square feet

All numbers are 1990 unless noted otherwise.

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Oakland
Ontario
Orange/Anaheim
San Francisco
San Francisco Peninsula
San Jose

COLORADO
Denver

CONNECTICUT
Hartford
Stamford

DISTRICT OF COLUMBIA
Washington
Washington Suburban/
Vienna, VA

FLORIDA
Ft. Lauderdale
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New York (Midtown)

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Portland

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